POLYCOM INC

FORM 10-Q
(Quarterly Report)

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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 June 30, 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 **(State or other jurisdiction of incorporation or organization)**	**94-3128324** **(IRS employer identification number)**
6001 America Center Drive, San Jose, CA **(Address of principal executive offices)**	**95002** **(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 136,789,876 shares of the Company's Common Stock, par value $.0005, outstanding on July 25, 2014.

POLYCOM, INC.

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REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2014

PART I FINANCIAL INFORMATION

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

POLYCOM, INC.

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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 413,133	$ 392,629
Short-term investments	136,320	134,684
Trade receivables, net of allowance for doubtful accounts of $3,398 and $2,827 at June 30, 2014 and December 31, 2013, respectively	177,074	183,369
Inventories	105,904	103,309
Deferred taxes	37,680	37,085
Prepaid expenses and other current assets	55,651	50,352
Total current assets	925,762	901,428
Property and equipment, net	108,833	115,157
Long-term investments	90,915	56,372
Goodwill	559,246	559,460
Purchased intangibles, net	30,920	37,458
Deferred taxes	46,177	51,398
Other assets	30,201	27,757
Total assets	$ 1,792,054	$ 1,749,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 93,357	$ 84,640
Accrued payroll and related liabilities	41,843	40,162
Taxes payable	2,260	5,389
Deferred revenue	174,252	172,408
Current portion of long-term debt	6,250	6,250
Other accrued liabilities	83,286	77,744
Total current liabilities	401,248	386,593
Non-current liabilities		
Long-term deferred revenue	84,338	87,467
Taxes payable	12,580	12,419
Deferred taxes	123	149
Long-term debt	239,063	242,188
Other non-current liabilities	52,071	43,849
Total non-current liabilities	388,175	386,072
Total liabilities	789,423	772,665
Stockholders' equity		
Common stock, $0.0005 par value; Authorized: 350,000,000 shares; Issued and outstanding: 136,787,842 shares at June 30, 2014 and 135,159,966 shares at December 31, 2013	67	68
Additional paid-in capital	1,145,694	1,104,273
Accumulated deficit	(146,972)	(132,348)
Accumulated other comprehensive income	3,842	4,372
Total stockholders' equity	1,002,631	976,365
Total liabilities and stockholders' equity	$ 1,792,054	$ 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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenues:				
Product revenues	$ 236,565	$ 251,422	$ 468,074	$ 497,551
Service revenues	95,454	93,812	192,469	186,435
Total revenues	332,019	345,234	660,543	683,986
Cost of revenues:				
Cost of product revenues	97,710	105,286	195,346	207,164
Cost of service revenues	39,087	38,350	77,990	76,127
Total cost of revenues	136,797	143,636	273,336	283,291
Gross profit	195,222	201,598	387,207	400,695
Operating expenses:				
Sales and marketing	97,836	109,657	191,804	218,372
Research and development	49,031	54,628	97,178	110,563
General and administrative	24,636	24,299	48,429	47,993
Amortization of purchased intangibles	2,436	2,545	4,928	5,047
Restructuring costs	9,175	4,329	39,518	9,752
Transaction-related costs	—	49	156	3,372
Total operating expenses	183,114	195,507	382,013	395,099
Operating income	12,108	6,091	5,194	5,596
Interest and other income (expense), net:				
Interest expense	(1,460)	(479)	(2,934)	(886)
Other income (expense)	(236)	95	543	(257)
Interest and other income (expense), net	(1,696)	(384)	(2,391)	(1,143)
Income from continuing operations before provision for (benefit from) income taxes	10,412	5,707	2,803	4,453
Provision for (benefit from) income taxes	1,855	412	(1,763)	(2,959)
Net income from continuing operations	8,557	5,295	4,566	7,412
Gain from sale of discontinued operations, net of taxes	—	—	—	459
Net income	$ 8,557	$ 5,295	$ 4,566	$ 7,871
Basic net income per share:				
Net income per share from continuing operations	$ 0.06	$ 0.03	$ 0.03	$ 0.04
Gain per share from sale of discontinued operations, net of taxes	—	—	—	—
Basic net income per share	$ 0.06	$ 0.03	$ 0.03	$ 0.05
Diluted net income per share:				
Net income per share from continuing operations	$ 0.06	$ 0.03	$ 0.03	$ 0.04
Gain per share from sale of discontinued operations, net of taxes	—	—	—	—
Diluted net income per share	$ 0.06	$ 0.03	$ 0.03	$ 0.04
Number of shares used in computation of net income per share:				
Basic	138,016	171,542	137,406	173,810
Diluted	142,876	175,591	142,521	177,366

Note that earnings per share amount for continuing operations, gain from sale of discontinued operations, and net income, as presented above, are calculated individually and may not sum due to rounding differences.

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

POLYCOM, INC.

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net income	$ 8,557	$ 5,295	$ 4,566	$ 7,871
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	117	429	(1,086)	493
Unrealized gains/losses on investments:				
Unrealized holding gains (losses) arising during the period	7	(74)	—	(86)
Net gains/losses reclassified into earnings	(1)	5	(2)	71
Net unrealized gains (losses) on investments	6	(69)	(2)	(15)
Unrealized gains/losses on hedging securities:				
Unrealized hedge gains (losses) arising during the period	422	(594)	1	2,363
Net gains/losses reclassified into earnings for revenue hedges	1,409	153	4,274	(474)
Net gains/losses reclassified into earnings for expense hedges	(1,518)	(565)	(3,717)	(652)
Net unrealized gains (losses) on hedging securities	313	(1,006)	558	1,237
Other comprehensive income (loss)	436	(646)	(530)	1,715
Comprehensive income	$ 8,993	$ 4,649	$ 4,036	$ 9,586

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

POLYCOM, INC.

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net income	$ 4,566	$ 7,871
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,034	33,242
Amortization of purchased intangibles	6,538	7,581
Amortization of capitalized software development costs for products to be sold	702	—
Amortization of debt issuance costs	267	—
Amortization of discounts and premiums on investments, net	944	794
Provision for doubtful accounts	600	—
Write-down of excess and obsolete inventories	2,253	3,860
Stock-based compensation expense	19,410	36,100
Excess tax benefits from stock-based compensation expense	(1,819)	(436)
Loss on disposal of property and equipment	4,965	1,742
Net gain on sale of discontinued operations	—	(459)
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	5,805	(8,235)
Inventories	(4,848)	(4,128)
Deferred taxes	(4,848)	847
Prepaid expenses and other assets	(7,327)	(8,720)
Accounts payable	6,130	6,619
Taxes payable	4,124	(1,394)
Other accrued liabilities and deferred revenue	14,125	6,774
Net cash provided by operating activities	80,621	82,058
Cash flows from investing activities:		
Purchases of property and equipment	(24,338)	(27,560)
Capitalized software development costs for products to be sold	(2,474)	—
Purchases of investments	(151,611)	(136,990)
Proceeds from sales of investments	37,056	10,358
Proceeds from maturities of investments	77,440	143,205
Net cash received from sale of discontinued operations	—	556
Net cash paid in purchase acquisitions	—	(8,350)
Net cash used in investing activities	(63,927)	(18,781)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee option and stock purchase plans	13,542	13,850
Payments on debt	(3,125)	—
Purchase and retirement of common stock	(8,426)	(90,429)
Excess tax benefits from stock-based compensation expense	1,819	436
Net cash provided by (used in) financing activities	3,810	(76,143)
Net increase (decrease) in cash and cash equivalents	20,504	(12,866)
Cash and cash equivalents, beginning of period	392,629	477,073
Cash and cash equivalents, end of period	$ 413,133	$ 464,207

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 sheets as of June 30, 2014, the condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013, the condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2014 and 2013, and the condensed consolidated statements of cash flows for the six months ended June 30, 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 (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 those estimates and operating results for the three and six months ended June 30, 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 the 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):

	Six Months Ended June 30, 2013		
	As Previously Reported	Adjustment	As Revised
Condensed Consolidated Statement of Cash Flows			
Operating activities:			
Amortization of discounts and premiums on investments, net	$ —	$ 794	$ 794
Net cash provided by operating activities	$ 81,264	$ 794	$ 82,058
Investing activities:			
Purchases of investments	$ (136,196)	$ (794)	$ (136,990)
Net cash used in investing activities	$ (17,987)	$ (794)	$ (18,781)

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services . The guidance is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company has not yet selected a transition method nor has it determined the impact of adoption on its consolidated financial statements.

In July 2013, the 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 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. 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 six months ended June 30, 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 six months ended June 30, 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 in September 2013, 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 distributors and resellers direct or indirect financing on their purchases of the Company's products and services. In return, the Company agrees to pay the financing company a fee based on a pre-defined percentage of the transaction amount financed. In certain instances, these financing arrangements result in a transfer of our receivables, without recourse, to the financing company. 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 distributor or reseller remits payment to the third-party financing company.

In the three months ended June 30, 2014, total transactions entered pursuant to the terms of the Financing Agreement were approximately $51.7 million, of which $37.5 million was related to the transfer of the financial assets arrangement. In the three months ended June 30, 2013, total transactions entered were approximately $25.7 million, of which $23.0 million was related to the transfer of the financial assets arrangement. In the six months ended June 30, 2014, total transactions entered pursuant to the terms of the Financing Agreement were approximately $83.7 million, of which $68.6 million was related to the transfer of the financial assets arrangement. In the six months ended June 30, 2013, total transactions entered were approximately $50.6 million, of which $45.2 million was related to the transfer 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 June 30, 2014 and December 31, 2013 was approximately $29.0 million and $22.9 million, respectively, of which $23.0 million and $21.6 million, respectively, was related to the accounts receivable transferred, and is included in "Trade receivables" in the Company's condensed consolidated balance sheets. Fees incurred pursuant to the Financing Agreement were approximately $0.6 million and $0.4 million for the three months ended June 30, 2014 and 2013, respectively, and were approximately $1.1 million and $0.7 million for the six months ended June 30, 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 six months ended June 30, 2014 (in thousands):

	Americas	EMEA	APAC	Total
Balance at December 31, 2013	$ 308,159	$ 101,882	$ 149,419	$ 559,460
Foreign currency translation	—	—	(214)	(214)
Balance at June 30, 2014	$ 308,159	$ 101,882	$ 149,205	$ 559,246

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 for products to be sold as of the following periods (in thousands):

	June 30, 2014			December 31, 2013		
	Gross Value	Accumulated Amortization & Impairment	Net Value	Gross Value	Accumulated Amortization & Impairment	Net Value
Core and developed technology	$ 81,178	$ (78,525)	$ 2,653	$ 81,178	$ (76,952)	$ 4,226
Customer and partner relationships	79,525	(53,498)	26,027	79,525	(48,941)	30,584
Non-compete agreements	1,800	(800)	1,000	1,800	(500)	1,300
Trade name	3,400	(3,159)	241	3,400	(3,089)	311
Other	4,462	(4,381)	81	4,462	(4,343)	119
Finite-lived intangible assets	170,365	(140,363)	30,002	170,365	(133,825)	36,540
Indefinite-lived trade name	918	—	918	918	—	918
Total acquired intangible assets	$ 171,283	$ (140,363)	$ 30,920	$ 171,283	$ (133,825)	$ 37,458
Capitalized software development costs for products to be sold	$ 4,923	$ (898)	$ 4,025	$ 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		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Amortization of purchased intangibles in revenues	$ 19	$ 18	$ 38	$ 38
Amortization of purchased intangibles in cost of product revenues	731	1,248	1,572	2,496
Amortization of purchased intangibles in operating expenses	2,436	2,545	4,928	5,047
Total amortization expenses of purchased intangibles	$ 3,186	$ 3,811	$ 6,538	$ 7,581

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

The estimated future amortization expense as of June 30, 2014 is as follows (in thousands):

Year ending December 31,	Amount
Remainder of 2014	$ 6,353
2015	10,495
2016	8,484
2017	4,670
2018	—
Total	$ 30,002

In the six months ended June 30, 2014, the Company capitalized approximately $2.6 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 six months ended June 30, 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 $9.2 million and $4.3 million during the three months ended June 30, 2014 and 2013, respectively, and $39.5 million and $9.8 million during the six months ended June 30, 2014 and 2013, respectively. Pursuant to the announcement in January 2014, management completed 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 $35.7 million in restructuring costs as of June 30, 2014 in connection with these actions announced in January 2014 and does not expect any remaining charges to be material.

The following table summarizes the changes in the Company's restructuring reserves during the six months ended June 30, 2014 (in thousands):

	Severance/Other	Facilities	Total
Balance at December 31, 2013	$ 1,143	$ 33,786	$ 34,929
Additions to the reserve	11,454	28,064	39,518
Non-cash write-offs	—	(2,515)	(2,515)
Cash payments and other usage	(9,687)	(11,385)	(21,072)
Balance at June 30, 2014	$ 2,910	$ 47,950	$ 50,860

As of June 30, 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 fair 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

Trade receivables, net consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Gross accounts receivables	$ 221,123	$ 225,134
Returns and related reserves	(40,651)	(38,938)
Allowance for doubtful accounts	(3,398)	(2,827)
Total	$ 177,074	$ 183,369

Inventories consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Raw materials	$ 3,654	$ 2,740
Work in process	568	840
Finished goods	101,682	99,729
Total	$ 105,904	$ 103,309

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

	June 30, 2014	December 31, 2013
Non-trade receivables	$ 6,317	$ 9,251
Prepaid expenses	39,831	31,164
Derivative assets	4,788	6,748
Other current assets	4,715	3,189
Total	$ 55,651	$ 50,352

Deferred revenue consists of the following (in thousands):

	June 30, 2014	December 31, 2013
Short-term:		
Service	$ 172,514	$ 170,701
Product	112	307
License	1,626	1,400
Total	$ 174,252	$ 172,408
Long-term:		
Service	$ 80,481	$ 83,092
Product	9	—
License	3,848	4,375
Total	$ 84,338	$ 87,467

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Balance at beginning of period	$ 253,044	$ 246,019	$ 253,793	$ 241,773
Additions to deferred service revenue	84,565	92,647	170,459	180,399
Amortization of deferred service revenue	(84,614)	(86,575)	(171,257)	(170,081)
Balance at end of period	$ 252,995	$ 252,091	$ 252,995	$ 252,091

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

	June 30, 2014	December 31, 2013
Accrued expenses	$ 23,333	$ 22,515
Accrued co-op expenses	4,262	4,629
Restructuring reserves	19,579	11,238
Warranty obligations	10,350	9,475
Derivative liabilities	5,402	6,780
Employee stock purchase plan withholdings	9,141	10,883
Other accrued liabilities	11,219	12,224
Total	$ 83,286	$ 77,744

Changes in the warranty obligation are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Balance at beginning of period	$ 10,006	$ 9,715	$ 9,475	$ 10,475
Accruals for warranties issued during the period	3,966	4,493	8,131	8,112
Actual charges against warranty reserve during the period	(3,622)	(4,522)	(7,256)	(8,901)
Balance at end of period	$ 10,350	$ 9,686	$ 10,350	$ 9,686

9. COMMITMENTS AND CONTINGENCIES

Litigation and SEC Investigation

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 proceedings 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.

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 and recently engaged in preliminary discussions to resolve the matter with the SEC.

Class Action Lawsuit . On July 26, 2013, a purported shareholder class action, initially captioned *Neal v. Polycom Inc., et al* ., Case No. 3:13-cv-03476-SC, and presently captioned *Nathanson 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. The defendants filed motions to dismiss the amended complaint.

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 internal 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.

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 insurance 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 the 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., as 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 14 for further details. Interest is due and payable in arrears quarterly for loans bearing interest 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" in the Company's 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, 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. 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 June 30, 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 could 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 June 30, 2014, the weighted average interest rate on the Term Loan was 1.96%, the accrued interest on the Term Loan was $0.1 million, and the current and noncurrent portion of the outstanding Term Loan was $6.3 million and $239.1 million, respectively.

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Contractual interest expense	$ 1,225	$ —	$ 2,454	$ —
Amortization of debt issuance costs	133	—	267	—
Total	$ 1,358	$ —	$ 2,721	$ —

11. INVESTMENTS

The Company had cash and cash equivalents of $413.1 million and $392.6 million at June 30, 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 June 30, 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 June 30, 2014:				
Investments-Short-term:				
U.S. government securities	$ 30,609	$ 18	$ —	$ 30,627
U.S. government agency securities	40,007	15	(2)	40,020
Non-U.S. government securities	8,567	6	—	8,573
Corporate debt securities	57,080	24	(4)	57,100
Total investments - short-term	$ 136,263	$ 63	$ (6)	$ 136,320
Investments-Long-term:				
U.S. government securities	$ 30,224	$ 23	$ —	$ 30,247
U.S. government agency securities	31,002	6	(7)	31,001
Non-U.S. government securities	1,167	1	—	1,168
Corporate debt securities	28,499	12	(12)	28,499
Total investments - long-term	$ 90,892	$ 42	$ (19)	$ 90,915
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

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 June 30, 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
June 30, 2014:						
U.S. government agency securities	$ 22,132	$ (9)	$ —	$ —	$ 22,132	$ (9)
Corporate debt securities	21,874	(16)	—	—	21,874	(16)
Total investments	$ 44,006	$ (25)	$ —	$ —	$ 44,006	$ (25)
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 the amount of the write-down is accounted for as a realized loss and included in earnings. During the six months ended June 30, 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 six months ended June 30, 2014 and 2013. The cost of these investments at both June 30, 2014 and December 31, 2013 was $2.0 million, and has been recorded in “Other assets” in the Company’s condensed consolidated balance sheets.

12. 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 hierarchy 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 instruments 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 instruments 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 and six months ended June 30, 2014 and 2013. The Company does not hold any investments classified as Level 3 as of June 30, 2014 and December 31, 2013.

As of June 30, 2014, the Company’s fixed income available-for-sale securities include U.S. Treasury obligations and other government agency instruments (54%), corporate bonds (24%), commercial paper (15%), non-U.S. Government securities (5%), and money market funds (2%). Included in available-for-sale securities is approximately $22.3 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 default 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 measured it at fair value for the disclosure purpose. At June 30, 2014 and December 31, 2013, the estimated fair value of the Term Loan was approximately $240.4 million and $247.5 million, respectively, 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 June 30, 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)	$ 249,535	$ 5,615	$ 243,920
Foreign currency forward contracts (b)	$ 4,788	$ —	$ 4,788
Liabilities:			
Foreign currency forward contracts (c)	$ 5,402	$ —	$ 5,402

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 in the Company's condensed consolidated balance sheets.

(b) Included in short-term derivative assets as prepaid expenses and other current assets in the Company's condensed consolidated balance sheets.

(c) Included in short-term derivative liabilities as other accrued liabilities in 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 13.

13. 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 exchange 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 of the outstanding non-designated hedges at June 30, 2014 (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	2,669	$ 1,212	Buy	—	$ —	—
Brazilian Real	4,914	$ 2,192	Sell	—	—	—
Chinese Yuan	90,205	$ 14,745	Buy	—	$ —	—
Chinese Yuan	83,527	$ 13,441	Sell	—	$ —	—
Euro	21,142	$ 28,945	Buy	9,572	$ 12,665	Buy
Euro	42,346	$ 57,854	Sell	27,315	$ 36,405	Sell
British Pound	17,141	$ 29,032	Buy	8,877	$ 13,809	Buy
British Pound	10,263	$ 17,486	Sell	16,500	$ 25,903	Sell
Israeli Shekel	10,130	$ 2,953	Buy	32,074	$ 8,850	Buy
Israeli Shekel	30,208	$ 8,767	Sell	—	$ —	—
Japanese Yen	314,425	$ 3,105	Buy	—	$ —	—
Japanese Yen	830,837	$ 8,191	Sell	—	$ —	—
Mexican Peso	10,541	$ 813	Buy	—	$ —	—
Mexican Peso	19,690	$ 1,522	Sell	—	$ —	—

The following table shows the effect of the Company's non-designated hedges in the condensed consolidated statements of operations for the following periods (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	
		June 30, 2014	**June 30, 2013**
Foreign exchange contracts	Interest and other income (expense), net	$ (35)	$ (732)
		Six Months Ended	
		June 30, 2014	**June 30, 2013**
Foreign exchange contracts	Interest and other income (expense), net	$ 299	$ 1,601

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 of the outstanding cash flow hedges at June 30, 2014 (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	120,695	$ 19,228	Buy	—	$ —	—
Euro	18,500	$ 25,277	Buy	6,828	$ 9,195	Buy
Euro	51,100	$ 69,928	Sell	10,285	$ 13,866	Sell
British Pound	17,000	$ 28,345	Buy	4,723	$ 7,551	Buy
British Pound	23,917	$ 39,883	Sell	—	$ —	—
Israeli Shekel	54,200	$ 15,629	Buy	27,826	$ 7,839	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 following periods (in thousands):

	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)	
	Three Months Ended			Three Months Ended			Three Months Ended	
	June 30, 2014	June 30, 2013		June 30, 2014	June 30, 2013		June 30, 2014	June 30, 2013
Foreign exchange contracts	$ 422	$ (594)	Product revenues	$ (1,409)	$ (153)	Interest and other income (expense), net	$ (127)	$ 160
			Cost of revenues	330	48			
			Sales and marketing	717	(285)			
			Research and development	277	755			
			General and administrative	194	47			
	$ 422	$ (594)		$ 109	$ 412		$ (127)	$ 160
	Six Months Ended			Six Months Ended			Six Months Ended	
	June 30, 2014	June 30, 2013		June 30, 2014	June 30, 2013		June 30, 2014	June 30, 2013
Foreign exchange contracts	$ 1	$ 2,363	Product revenues	$ (4,274)	$ 474	Interest and other income (expense), net	$ (52)	$ 160
			Cost of revenues	862	48			
			Sales and marketing	1,797	(107)			
			Research and development	692	652			
			General and administrative	366	59			
	$ 1	$ 2,363		$ (557)	$ 1,126		$ (52)	$ 160

(a) There were no gains or losses recognized in income due to ineffectiveness in the periods presented.

As of June 30, 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 six months ended June 30, 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 June 30, 2014 and December 31, 2013. See Note 12 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 periods presented (in thousands):

	Fair Value of Derivatives Designated as Hedge Instruments		Fair Value of Derivatives Not Designated as Hedge Instruments	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Derivative assets (a):				
Foreign exchange contracts	$ 2,089	$ 4,457	$ 2,699	$ 2,291
Derivative liabilities (b):				
Foreign exchange contracts	$ 1,525	$ 4,235	$ 3,877	$ 2,545

(a) All derivative assets are recorded in "Prepaid and other current assets" in the condensed consolidated balance sheets.
(b) All derivative liabilities are recorded in "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 transactions 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 Not Offset in the Condensed Consolidated Balance Sheets		
	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	Financial Instruments	Cash Collateral Pledged	Net Amount
As of June 30, 2014:						
Foreign exchange contracts	$ 4,788	$ —	$ 4,788	$ (4,191)	$ —	$ 597
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 Not Offset in the Condensed Consolidated Balance Sheets		
	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	Financial Instruments	Cash Collateral Pledged	Net Amount
As of June 30, 2014:						
Foreign exchange contracts	$ 5,402	$ —	$ 5,402	$ (4,191)	$ —	$ 1,211
As of December 31, 2013:						
Foreign exchange contracts	$ 6,780	$ —	$ 6,780	$ (5,643)	$ —	$ 1,137

14. 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 and six months ended June 30, 2014, the Company did not directly make open market purchases, however, the Company received 1.5 million shares under its accelerated share repurchase program as discussed below. During the three and six months ended June 30, 2013, the Company purchased approximately 4.7 million and 8.1 million shares of common stock, respectively, in the open market for $50.3 million and $84.5 million of cash, respectively. 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 July 2014, the Company announced that its Board of Directors had approved a new share repurchase plan under which the Company may at its discretion purchase shares in the open market with an aggregate value of up to $200.0 million. The Company expects to execute this new authorization over the next two years and to fund the share repurchases through cash on hand and future cash flow from operations.

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 fair 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 in December 2013. The ASR contracts were settled in June 2014, whereby the Company received an additional 1.5 million shares upon settlement. The aggregate 9.5 million shares ultimately purchased under the ASR program was determined based on the Company’s volume-weighted average stock price (“VWAP”) less an agreed upon discount during the term of the transactions. Total shares repurchased were immediately retired upon delivery and accounted for as a reduction to stockholders’ equity. 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 when the shares were received.

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 June 30, 2014 (in thousands). The tax effects were not shown separately, as the impacts were not material.

Six Months Ended June 30, 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	1	—	(1,086)	(1,085)
Amounts reclassified from accumulated other comprehensive income (a)	557	(2)	—	555
Net current-period other comprehensive income (loss)	558	(2)	(1,086)	(530)
Balance as of June 30, 2014	$ 638	$ 71	$ 3,133	$ 3,842

(a) See Note 13 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 six months ended June 30, 2014, net of taxes.

15. STOCK-BASED COMPENSATION

The following table summarizes stock-based compensation expense recorded for the periods presented and its allocation within the condensed consolidated statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Cost of sales - product	$ 520	$ 705	$ 1,160	$ 1,566
Cost of sales - service	1,101	1,645	2,062	3,121
Stock-based compensation expense included in cost of sales	1,621	2,350	3,222	4,687
Sales and marketing	5,333	7,218	5,724	13,854
Research and development	3,059	4,189	4,101	8,910
General and administrative	3,750	4,572	6,363	8,649
Stock-based compensation expense included in operating expenses	12,142	15,979	16,188	31,413
Stock-based compensation expense related to employee equity awards and employee stock purchases	13,763	18,329	19,410	36,100
Tax benefit	2,777	6,014	3,762	13,003
Stock-based compensation expense related to employee equity awards and employee stock purchases, net of tax	$ 10,986	$ 12,315	$ 15,648	$ 23,097

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 six months ended June 30, 2014 and 2013.

Performance Shares and Restricted Stock Units

During the six months ended June 30, 2014 and 2013, the Company granted 556,550 and 1,290,209, respectively, of performance shares to certain employees and executives, at a weighted average fair value of $13.76 and $8.82 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 six months ended June 30, 2014 and 2013, the Company granted 2,702,115 and 4,326,746, respectively, of restricted stock units at a weighted average fair value of $12.95 and $10.14 per share, respectively.

During the six months ended June 30, 2014 and 2013, the Company granted non-employee directors 140,000 and 100,000, respectively, of restricted stock units at a weighted average fair value of $12.87 and $11.14 per share, respectively.

Employee Stock Purchase Plan

During the six months ended June 30, 2014 and 2013, 1,696,177 and 1,634,299 shares were purchased under the Company's employee stock purchase plan ("ESPP"), respectively. As of June 30, 2014, there were 12,562,959 shares available to be issued under 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 and Six Months Ended	
	June 30, 2014	June 30, 2013
Expected volatility	32.30-42.11%	44.76-52.57%
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 the Company's net loss by approximately $1.4 million or $0.01 per share in the three months ended March 31, 2014. There was no material impact in the three months ended June 30, 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, and there was no such benefit recorded in the three months ended June 30, 2014.

16. NET INCOME PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Numerator				
Net income from continuing operations	$ 8,557	$ 5,295	4,566	7,412
Gain from sale of discontinued operations, net of taxes	—	—	—	459
Net income	$ 8,557	$ 5,295	$ 4,566	$ 7,871
Denominator				
Weighted average shares outstanding, basic	138,016	171,542	137,406	173,810
Effect of dilutive potential common shares	4,860	4,049	5,115	3,556
Weighted average shares outstanding, diluted	142,876	175,591	142,521	177,366
Basic net income per share				
Net income per share from continuing operations	$ 0.06	$ 0.03	$ 0.03	$ 0.04
Gain per share from sale of discontinued operations, net of taxes	—	—	—	—
	$ 0.06	$ 0.03	$ 0.03	$ 0.05
Diluted net income per share				
Net income per share from continuing operations	$ 0.06	$ 0.03	$ 0.03	$ 0.04
Gain per share from sale of discontinued operations, net of taxes	—	—	—	—
	$ 0.06	$ 0.03	$ 0.03	$ 0.04
Antidilutive employee stock-based awards, excluded	242	1,110	364	1,414

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 per share when their effect is antidilutive.

17. 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 consist of product and service revenues. Product revenues are attributed to a segment based on the ordering location of the customer. For internal reporting purposes and determination of segment contribution margins, geographic segment product revenues may differ slightly from actual geographic revenues due to internal revenue allocations between the Company's segments. Service revenues are generally attributed to a segment based on the end-user's location where services are performed. 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 economies 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. 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 June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 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 June 30, 2014:				
Revenue	$ 167,806	$ 83,067	$ 81,146	$ 332,019
% of total revenue	*51 %*	*25 %*	*24 %*	*100 %*
Contribution margin	69,155	35,108	33,366	137,629
% of segment revenue	*41 %*	*42 %*	*41 %*	*41 %*
For the three months ended June 30, 2013:				
Revenue	$ 175,629	$ 79,727	$ 89,878	$ 345,234
% of total revenue	*51 %*	*23 %*	*26 %*	*100 %*
Contribution margin	68,748	32,049	37,238	138,035
% of segment revenue	*39 %*	*40 %*	*41 %*	*40 %*
For the six months ended June 30, 2014:				
Revenue	$ 330,875	$ 172,104	$ 157,564	$ 660,543
% of total revenue	*50 %*	*26 %*	*24 %*	*100 %*
Contribution margin	139,128	72,774	65,020	276,922
% of segment revenue	*42 %*	*42 %*	*41 %*	*42 %*
For the six months ended June 30, 2013:				
Revenue	$ 346,610	$ 168,819	$ 168,557	$ 683,986
% of total revenue	*51 %*	*25 %*	*24 %*	*100 %*
Contribution margin	137,977	69,609	68,083	275,669
% of segment revenue	*40 %*	*41 %*	*40 %*	*40 %*
As of June 30, 2014: Gross accounts receivable	$ 86,945	$ 68,878	$ 65,300	$ 221,123
% of total gross accounts receivable	*39 %*	*31 %*	*30 %*	*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 and six months ended June 30, 2014, one customer from the Americas segment, ScanSource Communications ("ScanSource"), accounted for 18% of the Company's revenues. During the three and six months ended 2013, ScanSource accounted for 16% of the Company's revenues. At June 30, 2014 and December 31, 2013, ScanSource accounted for 14% 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		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Segment contribution margin	$ 137,629	$ 138,035	$ 276,922	$ 275,669
Corporate and unallocated costs	(99,339)	(105,300)	(205,938)	(213,005)
Stock-based compensation	(13,763)	(18,329)	(19,410)	(36,100)
Effect of stock-based compensation cost on warranty expense	(77)	(144)	(206)	(301)
Transaction-related costs	—	(49)	(156)	(3,372)
Amortization of purchased intangibles	(3,167)	(3,793)	(6,500)	(7,543)
Restructuring costs	(9,175)	(4,329)	(39,518)	(9,752)
Interest and other income (expense), net	(1,696)	(384)	(2,391)	(1,143)
Income from continuing operations before benefit from income taxes	$ 10,412	$ 5,707	$ 2,803	$ 4,453

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:				
UC group systems	$ 218,448	$ 232,998	$ 431,820	$ 465,425
UC personal devices	53,639	50,849	110,113	100,095
UC platform	59,932	61,387	118,610	118,466
Total	$ 332,019	$ 345,234	$ 660,543	$ 683,986

18. INCOME TAXES

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Income tax expense (benefit) from continuing operations	$ 1,855	$ 412	$ (1,763)	$ (2,959)
Effective tax rate	17.8%	7.2%	(62.9)%	(66.4)%

The effective tax rates for the three and six months ended June 30, 2014 and 2013 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 and six months ended June 30, 2014, discrete benefits of $0.2 million and $1.5 million were recorded for tax benefits realized on disqualifying dispositions of stock from the Company's employee stock purchase plan. In addition, included in the tax rate for the six months ended June 30, 2014 is a discrete tax benefit recorded in the first quarter of $0.9 million related to stock-based compensation expense adjustments for certain terminated employees. Discrete benefits recorded during the three and six months ended June 30, 2013 include $2.2 million recorded in the first quarter of 2013 related to the reinstatement of the federal research and development tax credit signed into law on January 2, 2013, but retroactive to 2012, and $1.0 million recorded in the second quarter of 2013 related to previously non-deductible acquisition-related expenses that became deductible in the quarter. In addition, $0.8 million and $0.3 million of tax benefits realized on disqualifying dispositions of stock from the Company's employee stock purchase plan were recorded in the first and second quarters of 2013, respectively.

As of June 30, 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 June 30, 2014 and December 31, 2013, the Company had approximately $1.6 million and $1.5 million, respectively, 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.

The Company regularly assesses the ability to realize deferred tax assets recorded in all entities based upon the weight of available evidence, including such factors as recent earnings history and expected future taxable income. If the Company’s future business profits do not support the realization of deferred tax assets, a valuation allowance could be recorded in the foreseeable future. In the event that the Company changes its determination as to the amount of deferred tax assets that can be realized, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

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 outsourced 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 and six months ended June 30, 2014 were $332.0 million and $660.5 million, respectively, a decrease of $13.2 million, or 4%, and $23.4 million, or 3%, respectively, from the same periods in 2013. On a year-over-year basis, our total product revenues declined while service revenues increased. The overall decreases in product revenues for the three and six months ended June 30, 2014 were primarily a result of lower sales of our UC group systems products, mainly driven by lower IP conference phone revenues as a result of Cisco Systems, Inc. ("Cisco" or "Cisco System") no longer reselling a product they previously purchased from us, and, to a lesser extent, due to lower UC platform product revenues. The decreases were partially offset by increased revenues from our UC personal devices products. The increases in service revenues were 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 51%, 25%, and 24%, respectively, of our revenues in the three months ended June 30, 2014. Our Americas and APAC segment revenues decreased by 4% and 10%, respectively, and our EMEA segment revenues increased by 4% in the three months ended June 30, 2014 as compared to the same period in 2013. In the six months ended June 30, 2014, our Americas, EMEA, and APAC segment revenues accounted for 50%, 26%, and 24%, respectively, of our revenues. Our Americas and APAC segment revenues decreased by 5% and 7%, respectively, and our EMEA segment revenues increased by 2% in the six months ended June 30, 2014 as compared to the same period in 2013. On a year-over-year basis, product revenues declined in our Americas and APAC segments, but increased in our EMEA segment, in the three months ended June 30, 2014, and declined across all our regions during the six months ended June 30, 2014. Service revenues increased in our EMEA and APAC segments, but decreased in our Americas segment, in the three months ended June 30, 2014, and increased across all our segments during the six months ended June 30, 2014. See Note 17 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 and six months ended June 30, 2014 and 2013.

Operating margins increased by 2 percentage points in the three months ended June 30, 2014 and remained relatively flat during the six month period ended June 30, 2014 as compared to the same periods in 2013. The increase in the three months ended June 30, 2014 was primarily due to increased gross margins and decreased operating expenses as a percentage of revenues by 1% each. Increased gross margins were primarily driven by a higher product gross margin as a result of changes in product mix toward higher margin RealPresence Group Series products within our UC group systems product category. The decrease in operating expenses as a percentage of revenues was primarily due to lower headcount and facility related costs due to actions taken to better align expenses to our revenue and gross margin profile and to improve our operating margins, partially offset by higher restructuring charges related to these actions.

During the six months ended June 30, 2014, we generated approximately $80.6 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 $20.5 million net increase in our total cash and cash equivalents from December 31, 2013.

Results of Operations for the Three and Six Months Ended June 30, 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		Six Months Ended	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Revenues:				
Product revenues	71 %	73%	71%	73%
Service revenues	29 %	27%	29%	27%
Total revenues	100 %	100%	100%	100%
Cost of revenues:				
Cost of product revenues as a % of product revenues	41 %	42%	42%	42%
Cost of service revenues as a % of service revenues	41 %	41%	41%	41%
Total cost of revenues	41 %	42%	41%	41%
Gross profit	59 %	58%	59%	59%
Operating expenses:				
Sales and marketing	29 %	32%	29%	32%
Research and development	15 %	16%	15%	16%
General and administrative	7 %	7%	7%	7%
Amortization of purchased intangibles	1 %	—	1%	1%
Restructuring costs	3 %	1%	6%	1%
Transaction-related costs	—	—	0%	1%
Total operating expenses	55 %	56%	58%	58%
Operating income	4 %	2%	1%	1%
Interest and other income (expense), net:				
Interest expense	(1)%	—	—	—
Other income (expense)	—	—	—	—
Interest and other income (expense), net	(1)%	—	—	—
Income from continuing operations before provision for (benefit from) income taxes	3 %	2%	1%	1%
Provision for (benefit from) income taxes	—	—	—	—
Net income from continuing operations	3 %	2%	1%	1%
Gain from sale of discontinued operations, net of taxes	—	—	—	—
Net income	3 %	2%	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			Six Months Ended		
$ in thousands	**June 30, 2014**	**June 30, 2013**	**Increase (Decrease)**	**June 30, 2014**	**June 30, 2013**	**Increase (Decrease)**
Americas	$ 167,806	$ 175,629	(4)%	$ 330,875	$ 346,610	(5)%
% of revenues	*51 %*	*51 %*		*50 %*	*51 %*	
EMEA	$ 83,067	$ 79,727	4%	$ 172,104	$ 168,819	2%
% of revenues	*25 %*	*23 %*		*26 %*	*25 %*	
APAC	$ 81,146	$ 89,878	(10)%	$ 157,564	$ 168,557	(7)%
% of revenues	*24 %*	*26 %*		*24 %*	*24 %*	
Total revenues	$ 332,019	$ 345,234	(4)%	$ 660,543	$ 683,986	(3)%

In the three months ended June 30, 2014, the decrease in total revenues was due to a decrease in product revenues of $14.9 million, or 6%, partially offset by an increase in service revenues of $1.6 million, or 2%, as compared to the same period in 2013. The decrease 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. In the six months ended June 30, 2014, the decrease in total revenues was due to a decrease in product revenues of $29.4 million, or 6%, partially offset by an increase in service revenues of $6.0 million, or 3%, as compared to the same period in 2013. The decrease in product revenues was primarily a result of lower sales of our UC group systems, partially offset by increased sales of our UC personal devices products and, to a lesser extent, increased sales of our UC platform products year-over-year. The increase in service revenues in the three and six months ended June 30, 2014 was primarily driven by increased maintenance service revenues on a larger installed base and increased maintenance service renewals year-over-year, partially offset by decreased revenues from managed services related to the Hewlett-Packard visual collaboration business we acquired in 2011. As these managed services contracts expire, customers may elect to purchase other Polycom product solutions rather than renew their managed services contracts, as was the case for the three months ended June 30, 2014. This trend is likely to continue.

The overall decreases in the Americas and APAC segment revenues in the three and six months ended June 30, 2014 were driven primarily by decreased revenues across several of our key geographic markets, including China, the United States, Canada, Japan, and Brazil, partially offset by increases in Australia, India and Mexico. The overall increases in the EMEA segment revenues in the three and six months ended June 30, 2014 were primarily due to growth in the United Kingdom, France, and Benelux, partially offset by decreases in Russia and the Nordic countries. On a year-over-year basis, product and service revenues decreased in our Americas segment and increased in our EMEA segment in the three months ended June 30, 2014. Our APAC segment product revenues decreased and service revenues increased in the three months ended June 30, 2014. Our product revenues decreased and service revenues increased across all our segments in the six months ended June 30, 2014 as compared to the same period of 2013.

In 2013, Cisco informed us that it would end of life, and therefore no longer resell, the IP conference phones they purchase from us, resulting in a year-over-year decrease of revenues of approximately $13.6 million and $22.5 million in the three and six months ended June 30, 2014, respectively. 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 decreases in the three and six months ended June 30, 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 and six months ended June 30, 2014, one channel partner, ScanSource Communications (“ScanSource”), located in our Americas segment, accounted for 18% of our total revenues, respectively. In the three and six months ended June 30, 2013, ScanSource accounted for 16%% 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			Six Months Ended		
$ in thousands	**June 30, 2014**	**June 30, 2013**	**Increase (Decrease)**	**June 30, 2014**	**June 30, 2013**	**Increase (Decrease)**
UC group systems	$ 218,448	$ 232,998	(6)%	$ 431,820	$ 465,425	(7)%
UC personal devices	53,639	50,849	5%	110,113	100,095	10%
UC platform	59,932	61,387	(2)%	118,610	118,466	—
Total revenues	$ 332,019	$ 345,234	(4)%	$ 660,543	$ 683,986	(3)%

UC group systems include all immersive telepresence, group video and group voice systems products and the related service elements. On a year-over-year basis, the decreases in UC group systems revenues were 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 APAC and EMEA segments and decreases in sales of immersive telepresence products and related services in our Americas and APAC segments. The decreases were partially offset by increased revenues from our group video products and related services from our America segment and, to a lesser extent, group voice products and related services from our EMEA and APAC segments.

UC personal devices include desktop video devices and desktop voice products and the related service elements. The increases in UC personal devices revenues were primarily due to increased sales of our desktop voice products and related services in our Americas and EMEA segments, partially offset by decreased revenues from desktop video products and related services across all regions and, to a lesser extent, decreased revenues from desktop voice products and related services in our APAC segment. Overall, the increases in UC personal devices revenues were 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 elements. The decrease in UC platform revenues in the three months ended June 30, 2014 was driven by decreased sales of our UC platform products and related service in our Americas segment, partially offset by increased revenues from our EMEA and APAC segments. In the six months ended June 30, 2014, the increases in UC platform revenues in our EMEA and APAC segments were largely offset by decreased revenues from our Americas segment, resulting in a less than 1% increase in UC platform revenues.

Cost of Revenues and Gross Margins

	Three Months Ended			Six Months Ended		
$ in thousands	**June 30, 2014**	**June 30, 2013**	**Increase (Decrease)**	**June 30, 2014**	**June 30, 2013**	**Increase/ (Decrease)**
Product Cost of Revenues	$ 97,710	$ 105,286	(7)%	$ 195,346	$ 207,164	(6)%
% of Product Revenues	*41 %*	*42 %*	*(1) pt*	*42 %*	*42 %*	—
Product Gross Margins	59%	58%	1 pt	58%	58%	—
Service Cost of Revenues	$ 39,087	$ 38,350	2%	$ 77,990	$ 76,127	2%
% of Service Revenues	*41 %*	*41 %*	—	*41 %*	*41 %*	—
Service Gross Margins	59%	59%	—	59%	59%	—
Total Cost of Revenues	$ 136,797	$ 143,636	(5)%	$ 273,336	$ 283,291	(4)%
% of Total Revenues	*41 %*	*42 %*	*(1) pt*	*41 %*	*41 %*	—
Total Gross Margins	59%	58%	1 pt	59%	59%	—

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-based 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 $0.5 million and $0.7 million for the three months ended June 30, 2014 and 2013, respectively, and $1.2 million and $1.6 million for the six months ended June 30, 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 increase in the product gross margins as a percentage of revenues in the three months ended June 30, 2014 was primarily due to changes in product mix towards higher margin RealPresence Group Series products within our UC group systems product category and, to a lesser extent, lower freight expense, partially offset by increased royalty expense. Gross margins as a percentage of revenues in the six months ended June 30, 2014 remained relatively flat compared to the same period in 2013. From a segment perspective, product gross margins increased in our Americas segment and decreased in our EMEA segment year-over-year. Product gross margins in our APAC segment increased in the three months ended June 30, 2014 and decreased in the six months ended June 30, 2014, as compared to the same periods 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 $1.1 million and $1.6 million for the three months ended June 30, 2014 and 2013, respectively, and $2.1 million and $3.1 million for the six months ended June 30, 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.

In the three and six months ended June 30, 2014, service gross margins as a percentage of revenues remained relatively flat as compared to the same periods in 2013. On a year-over-year basis, the increased cost of service revenue was primarily due to increased service revenues and direct spending costs, including outside services and warranty expenses which were partially offset by lower managed network costs. From a segment perspective, service gross margins as a percentage of revenues increased in our EMEA and APAC segments and decreased in our Americas segment.

Total Cost of Revenues and Total Gross Margins

On a year-over-year basis, the increase in total gross margins in the three months ended June 30, 2014 was primarily due to the increase in the product gross margins as a percentage of revenues, as discussed under Cost of Product Revenues and Product Gross Margins while service gross margins remained relatively flat, 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; fluctuations in 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; changes in prices on commodity components; warranty and recall costs; and the timing of sales.

Sales and Marketing Expenses

	Three Months Ended			Six Months Ended		
$ in thousands	**June 30, 2014**	**June 30, 2013**	**Decrease**	**June 30, 2014**	**June 30, 2013**	**Decrease**
Expenses	$ 97,836	$ 109,657	(11)%	$ 191,804	$ 218,372	(12)%
% of Revenues	*29 %*	*32 %*	*(3) pts*	*29 %*	*32 %*	*(3) 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 included charges for stock-based compensation expense of $5.3 million and $5.7 million for the three months ended June 30, 2014 and 2013, respectively, and $5.7 million and $13.9 million for the six months ended June 30, 2014 and 2013, respectively.

The year-over-year decreases in sales and marketing expenses were primarily due to decreased headcount-related costs, including compensation expense and stock-based compensation cost, and lower headcount-based allocations, as well as decreased spending on marketing program and travel and entertainment expenses. Sales and marketing headcount decreased by 11% from June 30, 2013 to June 30, 2014 as part of our plans to improve operating performance.

We expect our sales and marketing expenses to remain flat or increase slightly in absolute dollars in the near term. 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.

Research and Development Expenses

	Three Months Ended			Six Months Ended		
$ in thousands	**June 30, 2014**	**June 30, 2013**	**Decrease**	**June 30, 2014**	**June 30, 2013**	**Decrease**
Expenses	$ 49,031	$ 54,628	(10)%	$ 97,178	$ 110,563	(12)%
% of Revenues	*15 %*	*16 %*	*(1) pt*	*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 $3.1 million and $4.2 million for the three months ended June 30, 2014 and 2013, respectively, and $4.1 million and $8.9 million for the six months ended June 30, 2014 and 2013, respectively.

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

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 of 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			Six Months Ended		
$ in thousands	**June 30, 2014**	**June 30, 2013**	**Increase**	**June 30, 2014**	**June 30, 2013**	**Increase**
Expenses	$ 24,636	$ 24,299	1%	$ 48,429	$ 47,993	1%
% of Revenues	*7 %*	*7 %*	—	*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 $3.8 million and $4.6 million for the three months ended June 30, 2014 and 2013, respectively, and $6.4 million and $8.6 million for the six months ended June 30, 2014 and 2013, respectively.

The year-over-year increases in general and administrative expenses were primarily due to increased bad debt expense and increased legal fees and insurance premiums, largely offset by decreased compensation expense, including stock-based compensation cost.

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 administrative 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 remain relatively flat in the near term but they could fluctuate depending on the level and timing of expenditures associated with the litigation described in Note 9 of Notes to Condensed Consolidated Financial Statements.

Amortization of Purchased Intangibles

In the three months ended June 30, 2014 and 2013, we recorded $2.4 million and $2.5 million, respectively, in operating expenses and recorded $0.7 million and $1.2 million, respectively, in cost of product revenues for amortization of purchased intangibles related to acquisitions. In the six months ended June 30, 2014 and 2013, we recorded $4.9 million and $5.0 million, respectively, in operating expenses, and recorded $1.6 million and $2.5 million, respectively, in cost of product revenues for amortization of purchased intangibles related to acquisitions. The year-over-year decreases in amortization expenses were primarily due to certain intangible assets 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 June 30, 2014 and 2013, we recorded restructuring costs of $9.2 million and $4.3 million, respectively. During the six months ended June 30, 2014 and 2013, we recorded restructuring costs of $39.5 million and $9.8 million, respectively. The year-over-year increases in restructuring costs were primarily due to certain actions taken in the six months ended June 30, 2014 that were designed to better align expenses to our revenue and gross margin profile and position the company for improved operating performance, including the reduction or elimination of certain facilities globally and the elimination of approximately 6% of our global workforce as announced in January 2014. See Note 7 of Notes to Condensed Consolidated Financial Statements for further information on restructuring costs.

Our facilities-related restructuring reserves are recorded net of estimated sublease income that we expect to generate based upon current comparable leases in the respective markets. To the extent that actual sublease income is different from our estimates, or the timing of subleasing the facility is different than we originally estimated, we will adjust our restructuring reserves which may result in additional restructuring costs in the future.

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. There were no transaction-related costs in the three months ended June 30, 2014 compared to less than $0.1 million in the same period in 2013. In the six months ended June 30, 2014 and 2013, we recorded approximately $0.2 million and $3.3 million of transaction-related expenses, respectively. We have spent, and may in the future, spend significant resources identifying and acquiring businesses.

Interest and Other Income (Expense), Net

	Three Months Ended		Six Months Ended	
$ in thousands	**June 30, 2014**	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Interest expense	$ (1,460)	$ (479)	$ (2,934)	$ (886)
Other income (expense)	(236)	95	543	(257)
Interest and other income (expense), net	(1,696)	(384)	(2,391)	(1,143)

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, gains and losses on asset disposals and foreign exchange related gains and losses.

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

The increase in net other expense during the three months ended June 30, 2014 as compared to net other income the same period in 2013 was primarily due to lower interest income, partially offset by lower non-income based taxes and fees and lower foreign exchange losses. The increase in the net other income during the six months ended June 30, 2014 as compared to net other expense in the same period in 2013 was primarily due to a release in the first quarter of 2014 of sales and use tax reserves from prior years, lower non-income based taxes and fees and lower asset disposal losses, partially offset by lower interest income. 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, gains and losses on asset disposals 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 Expense (Benefits) From Continuing Operations

	Three Months Ended		Six Months Ended	
$ in thousands	**June 30, 2014**	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Income tax expense (benefit) from continuing operations	$ 1,855	$ 412	$ (1,763)	$ (2,959)
Effective tax rate	17.8%	7.2%	(62.9)%	(66.4)%

The effective tax rates for the three and six months ended June 30, 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 and six months ended June 30, 2014, discrete benefits of $0.2 million and $1.5 million were recorded for tax benefits realized on disqualifying dispositions of stock from our employee stock purchase plan. In addition, included in the tax rate for the six months ended June 30, 2014 is a discrete tax benefit recorded in the first quarter of $0.9 million related to stock-based compensation expense adjustments for certain terminated employees. Discrete benefits recorded during the three and six months ended June 30, 2013 include $2.2 million recorded in the first quarter of 2013 related to the reinstatement of the federal research and development tax credit signed into law on January 2, 2013, but retroactive to 2012, and $1.0 million recorded in the second quarter of 2013 related to previously non-deductible acquisition-related expenses that became deductible in the quarter. In addition, $0.8 million and $0.3 million of tax benefits realized on disqualifying dispositions of stock from our employee stock purchase plan were recorded in the first and second quarters of 2013, respectively.

As of June 30, 2014, the amount of gross unrecognized 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 June 30, 2014 and December 31, 2013, we had approximately $1.6 million and $1.5 million, respectively, 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 quarters ended June 30, 2014 and 2013 were not material in the aggregate and did not have a material impact on earnings per share.

We regularly assess the ability to realize deferred tax assets recorded in all entities based upon the weight of available evidence, including such factors as recent earnings history and expected future taxable income. If the Company’s future business profits do not support the realization of deferred tax assets, a valuation allowance could be recorded in the foreseeable future. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

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 six months ended June 30, 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 six months ended June 30, 2014, there was no realized gain or loss on sale of 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 guidance.

A description of our products and services as well as selected financial data for each segment can be found in Note 17 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 managed 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 June 30, 2014:								
Revenues	$	167,806	$	83,067	$	81,146	$	332,019
% of total revenues		*51 %*		*25 %*		*24 %*		*100 %*
Contribution margin	$	69,155	$	35,108	$	33,366	$	137,629
% of segment revenues		*41 %*		*42 %*		*41 %*		*41 %*
For the three months ended June 30, 2013:								
Revenues	$	175,629	$	79,727	$	89,878	$	345,234
% of total revenues		*51 %*		*23 %*		*26 %*		*100 %*
Contribution margin	$	68,748	$	32,049	$	37,238	$	138,035
% of segment revenues		*39 %*		*40 %*		*41 %*		*40 %*
For the six months ended June 30, 2014:								
Revenue	$	330,875	$	172,104	$	157,564	$	660,543
% of total revenue		50%		26%		24%		*100 %*
Contribution margin	$	139,128	$	72,774	$	65,020		276,922
% of segment revenue		42%		42%		41%		*42 %*
For the six months ended June 30, 2013:								
Revenue	$	346,610	$	168,819	$	168,557	$	683,986
% of total revenue		*51 %*		*25 %*		*24 %*		*100 %*
Contribution margin		137,977		69,609		68,083		275,669
% of segment revenue		*40 %*		*41 %*		*40 %*		*40 %*
As of June 30, 2014: Gross accounts receivable	$	86,945	$	68,878	$	65,300	$	221,123
% of total gross accounts receivable		*39 %*		*31 %*		*30 %*		*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					Six Months Ended				
$ in thousands	**June 30, 2014**		**June 30, 2013**		**Increase (Decrease)**	**June 30, 2014**		**June 30, 2013**		**Increase (Decrease)**
Revenues	$	167,806	$	175,629	(4)%	$	330,875	$	346,610	(5)%
Contribution margin	$	69,155	$	68,748	1%	$	139,128	$	137,977	1%
Contribution margin as % of Americas revenues		*41 %*		*39 %*	*2 pts*		*42 %*		40%	*2 pts*

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

In the three months ended June 30, 2014 and 2013, one channel partner in our Americas segment accounted for 36% and 31%, respectively, of our Americas revenues. In the six months ended June 30, 2014 and 2013, one channel partner in our Americas segment accounted for 36% and 32%, 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 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 increases in contribution margin as a percentage of Americas segment revenues were primarily due to higher gross margins and decreased direct sales and marketing expenses as a percentage of revenues. The increases in gross margins were primarily due to higher product gross margins driven by a product mix shift toward higher margin RealPresence Group Series products within our UC group systems product category, while service gross margins declined slightly in the three months ended June 30, 2014 and remained relatively flat in the six months ended June 30, 2014 as compared to the same periods in 2013. The decreases in direct sales and marketing expenses were primarily driven by lower headcount-related costs as a result of our restructuring actions, including decreased compensation and commission expenses and lower headcount-based allocations, as well as decreased marketing programs spending.

EMEA

$ in thousands	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Increase	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Increase
Revenues	$ 83,067	$ 79,727	4%	$ 172,104	$ 168,819	2%
Contribution margin	$ 35,108	$ 32,049	10%	$ 72,774	$ 69,609	5%
Contribution margin as % of EMEA revenues	*42 %*	*40 %*	*2 pts*	*42 %*	*41 %*	*1 pt*

The increases in our EMEA segment revenues were primarily due to increased revenues from the United Kingdom, France, and Benelux as a result of slowly improving economic environment in these countries, partially offset by decreased revenues in Russia and the Nordic countries. On a year-over-year basis, the increases in EMEA segment revenues were across all product categories. The increases in UC group systems revenues was primarily due to increased revenues from group voice sales, partially offset by decreased revenues from group video products and the related services. The increases in UC personal devices revenues were primarily driven by increased revenues from desktop voice sales as a result of Microsoft ® Lync ® voice deployments, partially offset by decreased revenues from desktop video products and the related services. The increases in UC platform revenues were primarily due to increased sales in our RealPresence products and the related services.

In the three months ended June 30, 2014 and 2013, one channel partner in our EMEA segment accounted for 14% and 11%, respectively, of our EMEA revenues. In the six months ended June 30, 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 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 increases in contribution margin as a percentage of EMEA segment revenues were primarily due to decreased direct sales and marketing expenses as a percentage of revenues, partially offset by lower gross margins. The decreases in direct sales and marketing expenses were primarily due to lower headcount-related costs as a result of our restructuring actions, including decreased compensation and commission expenses, as well as lower headcount-based allocations and outside services costs. The decreases in gross margins were primarily due to lower service gross margins driven by increased warranty costs and lower product gross margins as a result of a product mix shift away from higher margin UC group video products.

APAC

$ in thousands	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Decrease	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Increase (Decrease)
Revenues	$ 81,146	$ 89,878	(10)%	$ 157,564	$ 168,557	(7)%
Contribution margin	$ 33,366	$ 37,238	(10)%	$ 65,020	$ 68,083	(4)%
Contribution margin as % of APAC revenues	*41 %*	*41 %*	—	*41 %*	*40 %*	*1 pt*

The decreases in our APAC segment revenues were primarily driven by decreased revenues from UC group systems and, to a lesser extent, from UC personal devices products and the related services, partially offset by increased revenues from UC platform products and the related services. The decreases in UC group systems revenues in APAC were primarily driven by decreased revenues from group video and immersive telepresence products and the related services, partially offset by increased group voice revenues. The decreases in UC personal devices revenues were due to decreased desktop voice sales and, to a lesser extent, decreased desktop video sales. Revenues decreased year-over-year primarily in China and Japan, partially offset by increased revenues in India and 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 the three months ended June 30, 2014 and 2013, three channel partners in our APAC segment, in aggregate, accounted for 40% and 44%, respectively, of our APAC revenues. In the six months ended June 30, 2014, three channel partners in our APAC segment, in aggregate, accounted for 38% of our APAC revenues. In the six months ended June 30, 2013, one channel partner in our APAC segment accounted for 16% 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 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 APAC segment revenues in the three months ended June 30, 2014 was flat compared to the same period in 2013. The increase in contribution margin as a percentage of APAC segment revenues in the six months ended June 30, 2014 was primarily due to lower direct sales and marketing expenses as a percentage of revenues and slightly increased gross margins. The decrease in direct sales and marketing expenses was driven by lower headcount-related costs as a result of our restructuring actions, including lower compensation and commission expenses and lower headcount-based allocations, as well as decreased marketing program spending. The increase in gross margins was primarily due to increased service gross margins driven by increased service revenues while cost of service revenues in absolute dollars were relatively flat year-over-year, partially offset by slightly decreased product gross margins.

Liquidity and Capital Resources

As of June 30, 2014, our principal sources of liquidity included cash and cash equivalents of $413.1 million, short-term investments of $136.3 million, and long-term investments of $90.9 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 Americas totaled $234.3 million, and the remaining $406.1 million was held by various foreign subsidiaries outside of the Americas as of June 30, 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 “Term 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 pursuant to the $250.0 million modified “Dutch Auction” self-tender offer announced in September 2013. We were in compliance with all debt covenants as of June 30, 2014. See Note 10 of Notes to Condensed Consolidated Financial Statements for further details.

We generated cash from operating activities totaling $80.6 million and $82.1 million in the six months ended June 30, 2014 and 2013, respectively. The decrease in cash provided by operating activities for the six months ended June 30, 2014 as compared to the same period in 2013 was primarily due to lower net income after adjusting for non-cash expenses, largely offset by improved cash collection and higher accrued liabilities adjustments.

The total net change in cash and cash equivalents for the six months ended June 30, 2014 was an increase of $20.5 million. The primary sources of cash were $80.6 million from operating activities, $13.5 million cash proceeds from the exercise of stock options and purchases under the employee stock purchase plan, and $1.8 million from excess tax benefit. The primary uses of cash during this period were $37.1 million of net purchases of investments, $26.8 million for purchases of property and equipment and costs for internally developed software products, $8.4 million for stock repurchases to satisfy tax withholding obligations, and $3.1 million of debt payment.

Our days-sales-outstanding (“DSO”) metric was 49 days and 54 days at June 30, 2014 and 2013, respectively. The decrease in DSO is due in part to improved revenue linearity in the second quarter of 2014 over the prior-year quarter and improved cash collections. 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 5.2 turns at June 30, 2014 as compared to 5.7 turns at June 30, 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 reporting 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% 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 in December 2013. The ASR contracts were settled in June 2014, whereby we received an additional 1.5 million shares upon settlement. The aggregate 9.5 million shares ultimately purchased under the ASR program was determined based on the Company’s volume-weighted average stock price less an agreed upon discount during the term of the transactions. Total shares repurchased were immediately retired upon delivery. See Note 14 of Notes to our Condensed Consolidated Financial Statements for further details. In July 2014, we announced that our Board of Directors had approved a new share repurchase plan under which we may at our discretion purchase shares in the open market with an aggregate value of up to $200.0 million. We expect to execute this new authorization over the next two years and to fund the share repurchases through cash on hand and future cash flow from operations.

At June 30, 2014, we had open purchase orders related to our contract manufacturers and other contractual obligations of approximately $274.9 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 June 30, 2014, the future minimum lease payments due under our current lease obligations. The table below excludes approximately $10.5 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 June 30, 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	$ 12,376	$ 2,148	$ —	$ 273,758	$ 3,125	$ 2,478	$ 293,885
2015	21,478	3,684	3,350	1,191	6,250	5,685	41,638
2016	15,399	2,673	5,905	—	6,250	7,780	38,007
2017	13,118	2,192	6,255	—	6,250	9,583	37,398
2018	10,489	1,526	6,339	—	223,438	7,359	249,151
Thereafter	30,238	4,366	30,222	—	—	—	64,826
Total payments	$ 103,098	$ 16,589	$ 52,071	$ 274,949	$ 245,313	$ 32,885	$ 724,905

(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 18 of our Notes to Condensed Consolidated Financial Statements, at June 30, 2014, we had unrecognized tax benefits, including related interest, totaling $23.7 million, $1.0 million of which may be released in the next 12 months due to the lapse of certain statutes of limitation in the applicable tax jurisdictions.

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 or 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 June 30, 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 six months ended June 30, 2014, except for stock-based compensation as described in Note 15 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 six months ended June 30, 2014.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services . The guidance is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We have not yet selected a transition method nor have we determined the impact of adoption on our consolidated financial statements.

In July 2013, the 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 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 predict. 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 June 30, 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 current economic environment.

The following table presents the hypothetical fair values of our securities, excluding cash and cash equivalents, held at June 30, 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 6/30/2014	+50 BPS	+100 BPS	+150 BPS
$ 228,367	$ 227,990	$ 227,612	$ 227,235	$ 226,858	$ 226,480	$ 226,103

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 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 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 June 30, 2014, the weighted average interest rate on the Term Loan was 1.96%. 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, Chinese Yuan, Euro, British Pound, Israeli Shekel, Japanese 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 June 30, 2014, we had outstanding forward exchange contracts to sell 2.2 million Brazilian Reals at 2.29, buy 6.7 million Chinese Yuan at 5.12, sell 21.2 million Euros at 1.36, buy 6.9 million British Pounds at 1.68, sell 20.1 million Israeli Shekels at 3.45, sell 516.4 million Japanese Yen at 101.53, and sell 9.1 million Mexican Pesos at 12.91. 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 June 30, 2014, we also had net outstanding foreign exchange contracts to sell 17.7 million Euros at 1.34, sell 7.6 million British Pounds at 1.59 and buy 32.1 million Israeli Shekels at 3.62. 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 June 30, 2014, we had outstanding foreign exchange contracts to buy 120.7 million Chinese Yuan at 6.28, sell 32.6 million Euros at 1.37, sell 6.9 million British Pounds at 1.67, and buy 54.2 million Israeli Shekels at 3.47. These forward exchange contracts, carried at fair value, typically mature in 360 days or less. As of June 30, 2014, we had net outstanding foreign exchange contracts to sell 3.5 million Euros at 1.35, buy 4.7 million British Pounds at 1.60, and buy 27.8 million Israeli Shekels at 3.55. 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 June 30, 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 currencies 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 13 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 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 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 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 six months ended June 30, 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 "Commitments and Contingencies" in Note 9 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 Inc., Blue Jeans Network, ClearOne Communications, Inc., Dolby Laboratories, Inc., Huawei Technologies Co. Ltd., Logitech International S.A., Revolabs, Inc., snom technology AG and Yealink.

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 ClearOne, snom, Sony Corporation, Yealink, Zylotech Ltd., 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 introductions 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 Inc., Google Inc., 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 product 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 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 seen slower growth compared to prior years 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 relative 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 solutions, 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 throughout 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 shortages 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 acceptance 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, can 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 offerings 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 requires 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 the second quarter of 2014, we appointed a new chief financial officer and a new head of worldwide engineering. In addition, we recently appointed a new head of sales in APAC. These transitions, 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 June 30, 2014, our goodwill was approximately $559.2 million and other purchased intangible assets were approximately $30.9 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.

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 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.

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 leases 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 sales 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, the 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 last four quarters, the percentage of our quarterly revenues that were recognized in the third month of the quarter ranged from approximately 48% to 54%. 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 managed 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, 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 or 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 informed us that it would end of life, and will therefore no longer resell, the IP conference phones they purchased 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 forecasts 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 data is inaccurate or not received timely, our revenue forecasts 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 partner 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 combined 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 sustain 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 unable 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 investigation 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 both of the three months ended June 30, 2014 and 2013, international revenues represented 56% 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;

- recent economic sanctions imposed, and the potential for additional economic sanctions, by certain European nations and the U.S. on Russia and certain individuals and entities in Russia, as well as Russia's potential response to such sanctions, some of which may affect our ability to sell or import our products in Europe;
- 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, such as the recent events in Russia and the Ukraine.

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 be 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 $0.6 million in the six months ended June 30, 2014. For further information on our hedging program, see the section entitled "Quantitative and Qualitative Disclosures About Market Risk."

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

We have spent and may spend in the future, 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 benefits 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.

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 from 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 and 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, could 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 Group Series and HDX video 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 would 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 voice, video and network system 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 our video 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 minerals" 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 June 30, 2014, we had $245.3 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 that 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 materially 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 commercially 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, circumvented 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 operations. 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 Note 9 of Notes to the Condensed Consolidated Financial Statements, 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 and 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 by 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 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.

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 to 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, require 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 depending 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 six months ended June 30, 2014.

Issuer Purchases of Equity Securities

The following table provides a month-to-month summary of the stock purchase activity during the three months ended June 30, 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)
4/1/14 to 4/30/14	151	$ 13.03	—	$ —
5/1/14 to 5/31/14	47,844	$ 12.33	—	$ —
6/1/14 to 6/30/14	1,532,729	(2)	1,532,382	$ —
Total	1,580,724		1,532,382	

(1) Includes 48,342 shares repurchased in April through June 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 in December 2013. The ASR contracts were settled in June 2014, whereby we received an additional 1.5 million shares upon settlement. The aggregate 9.5 million shares ultimately purchased under the ASR program was determined based on the Company’s volume-weighted average stock price (“VWAP”) less an agreed upon discount during the term of the transactions, which was $12.07 per share. See Note 14 of Notes to Condensed Consolidated Financial Statements for further information. In July 2014, we announced that our Board of Directors had approved a new share repurchase plan under which we may at our discretion purchase shares in the open market with an aggregate value of up to $200.0 million. We expect to execute this new authorization over the next two years and to fund the share repurchases through cash on hand and future cash flow from operations.

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*	Release of Claims with Eric F. Brown, dated April 15, 2014 (which is incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 1, 2014 (No. 000-27978)).
10.2*	Polycom, Inc. 2005 Employee Stock Purchase Plan, as amended (which is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 11, 2014 (No. 000-27978)).
10.3(1)*	Offer Letter with Michael Frendo, dated April 28, 2014.
10.4(1)*	Promotion Letter with Laura J. Durr, dated June 5, 2014.
10.5(1)*	Form of Amended Change of Control Severance Agreement.
10.6(1)*	Polycom, Inc. Executive Severance Plan and Summary Plan Description, as amended and restated effective July 30, 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 Executive Vice President, Chief Accounting Officer and 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

* 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: August 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
Executive Vice President, Chief Accounting Officer and Chief Financial Officer
(Principal Financial Officer
and Principal Accounting Officer)

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

Exhibit 10.3

Polycom, Inc.
6001 America Center Drive
P.O. Box 641390
San Jose, CA 95002

TEL 408-586-6000

www.polycom.com

4.28.14

Mr. Michael Frendo
3741 Raboli Street
Pleasanton, CA 94566

Dear Michael:

Thank you for your interest in joining Polycom. We are favorably impressed with your experience, skills, and proven track record. Given the requirements we have in building our company, we believe you are the ideal individual to join our team. We are pleased to extend the following offer:

1. **Title:** Executive Vice President, Engineering, reporting to Peter Leav, CEO. This is an exempt professional position located in San Jose, CA.
2. **Salary:** $14,583.00 paid semi-monthly (equivalent to approximately $350,000.00 per year) . If your hire date is within five (5) business days of the end of a pay cycle you will receive your first paycheck at the end of the following pay cycle.
3. **Equity:** You will be granted 73,052 Restricted Stock Units of Polycom common stock ("RSU"), which grant is subject to approval by the Compensation Committee of the Board of Directors. These RSU's will vest over a 3 year period from the grant date in equal annual installments and will be subject to all of the terms and conditions as set forth in your Restricted Stock Unit Agreement. In addition, you will be granted 73,052 Target Performance Shares ("PSU") measuring Total Shareholder Return against the Nasdaq Composite Index, which grant is subject to approval by the Compensation Committee of the Board of Directors. These PSU's will have three distinct annual performance periods over a three (3) year period and will be subject to the other terms and conditions set forth in your Performance Share Agreement.
4. **Bonus Plan:** You are eligible to participate in Polycom's 2014 Management Bonus Plan, which is targeted at 75% of your base salary during the fiscal year. Details of the plan to follow. Depending on when you start with Polycom, with respect to the 2014 bonus, you will be eligible for a pro-rata portion of your target 2014 bonus based on your Polycom earnings in 2014 and subject to company performance.
5. **Benefits:** Polycom provides a competitive benefits package to all full-time, regular employees. A summary of these benefits is enclosed.

You hereby represent to Polycom that you are under no obligation or agreement that would prevent you from becoming an employee of Polycom or adversely impact your ability to perform the expected services.

Adherence to Company rules and regulations is also a condition of employment. Polycom is an equal opportunity/affirmative action employer.

Polycom, Inc.
6001 America Center Drive
P.O. Box 641390
San Jose, CA 95002
TEL 408-586-6000
www.polycom.com

This offer is contingent upon the following: (1) your execution of the enclosed Proprietary Information and Invention Agreement, which, among other things, requires that you will not, during your employment with Polycom, improperly use or disclose any proprietary information or trade secrets of any former employer and will not bring onto Polycom premises any confidential or proprietary information of any former employer unless that employer has consented to such action in writing; (2) your execution of the enclosed Proprietary Information Obligations Checklist concerning your obligation to protect and not bring to Polycom the proprietary information of any other company between the date of this offer letter and the date you begin employment with Polycom; (3) your ability to provide the Company with the legally required proof of your identity and authorization to work in the United States; (4) the satisfactory results of the background investigation and reference checks; and (5) understanding of and commitment to the standards and policies contained in the enclosed Polycom Code of Business Ethics and Conduct.

This letter sets forth the terms of your employment with us and supersedes any prior representations or agreements, whether written or oral. Employment with Polycom is "at-will". This means that it is not for any specific period of time and can be terminated by the employee or by the Company at any time, without any advance notice or procedures, and for any or no particular reason or cause. It also means that Polycom reserves the right to change at any time, in its sole discretion and business judgment, any term or condition of employment including, but not limited to, an employee’s job duties, title, work location, responsibilities, reporting level, compensation and benefits, as well as the Company’s personnel policies and procedures. However, the “at-will” nature of employment with Polycom cannot be changed except by a separate individualized written agreement that expressly disavows at-will employment, and is signed by the employee and by Polycom’s Chief Legal Officer and by its highest level Vice President of Human Resources.

We look forward to your acceptance of our offer, which will remain open until May 5, 2014

Michael, we are very interested in having you join Polycom. We believe that your background and knowledge will make you an important addition to our team and look forward to the opportunity to work with you.

Best Regards,

/s/ Elisa Gilmartin

Elisa Gilmartin
SVP, Human Resources

Accepted by:	/s/ Michael Frendo
Date:	April 28, 2014
Start Date:	Date May 13, 2014

Requisition #0000BR

Exhibit 10.4

Polycom

Polycom, Inc.
6001 America Center Drive
San Jose, CA 95002

TEL408-586-6000

www.polycom.com

June 5 th, 2014

Ms. Laura Durr

Dear Laura,

It gives me great pleasure to inform you that you have been promoted to Executive Vice President and Chief Financial Officer (CFO), effective May 28, 2014 ("Promotion Date").

The following are the details of your new position:

1. **Title:** Chief Financial Officer and Executive Vice President
2. **Base Salary:** $18,333.33 paid semi-monthly (approximately $440,000.00 annually), less payroll deductions and all required withholdings in accordance with the Company's normal payroll procedures.
3. **Manager:** Your manager will continue to be Peter Leav, President and Chief Executive Officer.
4. **Bonus:** You will participate in the Management Bonus Plan, or such other bonus plan as designated by the Compensation Committee of the Board of Directors, at a target of 80% of your new base salary, effective as of your Promotion Date, during the remainder of the fiscal year.
5. RSU: Effective May 28, 2014, you have been granted 17,500 Restricted Stock Units of Polycom common stock and 17,500 Performance Shares by the Compensation Committee of the Board of Directors. These shares will vest in accordance with, and will be subject to all of the other terms and conditions set forth in, your Restricted Stock Unit Agreement and Performance Share Agreement.
6. Change of Control Severance Package: You are eligible to receive a Polycom Change of Control Severance Agreement, in such form as is customary for Polycom executive officers other than the Chief Executive Officer and approved by the Board of Directors.
7. Existing Executive Severance Plan Participation: No Change
8. Benefits: Continued eligibility to participate in all compensation, retirement, and welfare benefit programs available to Polycom executive officers.
9. PIIA: The Proprietary Information and Invention Agreement that you previously signed remains in effect.

Once again, congratulations on your promotion, and thank you for your dedication and contribution to Polycom. You have brought significant enhancements to Polycom, and I look forward to your continued success at Polycom. Please send your signed promotion letter to HR Solutions Team at DL-HRSSAmericas@polycom.com .

Sincerely,
/s/ Chad Herring

Chad Herring
Vice President, WW Human Resources

Accepted by: /s/ Laura Durr

Date: 6-6-2014

Exhibit 10.5

POLYCOM, INC.

CHANGE OF CONTROL SEVERANCE AGREEMENT

This Change of Control Severance Agreement (the "Agreement") is made and entered into by and between [NAME] (the "Employee") and Polycom, Inc., a Delaware corporation (the "Company"), effective as of [DATE] (the "Effective Date").

RECITALS

1. It is expected that the Company from time to time will consider the possibility of an acquisition by another company or other change of control transaction. The Board of Directors of the Company (the "Board") recognizes that such consideration can be a distraction to the Employee and can cause the Employee to consider alternative employment opportunities. The Board has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of the Employee, notwithstanding the possibility, threat or occurrence of a "Change of Control" (as defined herein) of the Company.

2. The Board believes that it is in the best interests of the Company and its stockholders to provide the Employee with an incentive to continue his or her employment and to motivate the Employee to maximize the value of the Company upon a Change of Control for the benefit of its stockholders.

3. The Board believes that it is imperative to provide the Employee with certain severance benefits upon the Employee's termination of employment following a Change of Control. These benefits will provide the Employee with enhanced financial security and incentive and encouragement to remain with the Company notwithstanding the possibility of a Change of Control.

4. Certain capitalized terms used in the Agreement are defined in Section 7 below.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Term of Agreement. This Agreement shall terminate upon the date that all of the obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment. The Company and the Employee acknowledge that the Employee's employment is and shall continue to be at-will, as defined under applicable law, except as may otherwise be specifically provided under the terms of any written formal employment agreement between the Company and the Employee (an "Employment Agreement"). If the Employee's employment terminates for any reason, including (without limitation) any termination prior to a Change of Control, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement or under his or her Employment Agreement.

3. Agreement to Remain with the Company for 6 Months Following a Change of Control. Employee agrees to remain employed with the Company (or its successor corporation) for a period of six (6) months following a Change of Control unless his or her employment terminates due to Employee's death, "Disability" (as defined herein), for "Good Reason" (as defined herein), or is terminated involuntarily by the Company during such six (6) month period.

4. Termination of Employment. In the event Employee's employment with the Company terminates for any reason governed by this Agreement, Employee will be entitled to any: (a) unpaid base salary accrued up to the effective date of termination, (b) unpaid, but earned and accrued annual incentive for any completed fiscal year as of his or her termination of employment, (c) pay for accrued but unused vacation, (d) benefits or compensation as provided under the terms of any employee benefit and compensation agreements or plans applicable to Employee, (e) unreimbursed business expenses required to be reimbursed to Employee, and (f) rights to indemnification Employee may have under the Company's Articles of Incorporation, Bylaws, or separate indemnification agreement, as applicable. In addition, if the termination is by the Company other than for "Cause" (as defined herein), Employee terminates his or her employment with the Company (or any parent or subsidiary of the Company) for Good Reason or Employee dies or terminates employment due to Disability, Employee may be entitled to the amounts and benefits specified in Section 5.

5. Severance Benefits.

(a) Involuntary Termination Other than for Cause or Voluntary Termination for Good Reason Following a Change of Control. If within [NUMBER (XX)] months following a Change of Control (i) the Employee terminates his or her employment with the Company (or any parent or subsidiary of the Company) for Good Reason or (ii) the Company (or any parent or subsidiary of the Company) terminates the Employee's employment for other than Cause, or (iii) the Employee dies or terminates employment due to Disability, and, in all cases except the Employee's death, he or she signs and does not revoke a standard release of claims with the Company in a form reasonably acceptable to the Company within the period required by the release and in no event later than sixty (60) days following the Employee's termination of employment, inclusive of any revocation period set forth in the release of claims (collectively, the "Release Deadline Date"), then the Employee shall receive from the Company the severance payments and benefits described in this Section 5(a). If the release does not become effective by the Release Deadline Date, the Employee will forfeit any rights to severance payments and benefits in Section 5(a) and under this Agreement. No severance will be paid or provided until the release becomes effective. The Company must provide the form of release to the Employee in a reasonable period of time following termination of employment so that the Employee has a reasonable opportunity to have the release become effective before the Release Deadline Date.

(i) Severance Payment. The Employee shall be entitled to receive a lump-sum severance payment (less applicable withholding taxes) equal to [PERCENT]% of the Employee's annual base salary (as in effect immediately prior to (A) the Change of Control, or (B) the Employee's termination, whichever is greater) plus [PERCENT]% of the Employee's target bonus for the fiscal year in which the Change of Control or the Employee's termination occurs, whichever is greater.

(ii) Options; Restricted Stock. All of the Employee's then outstanding options to purchase shares of the Company's Common Stock (the "Options") shall immediately vest and became exercisable. Additionally, all of the shares of the Company's Common Stock then held by the Employee subject to a Company repurchase right (the "Restricted Stock") shall immediately vest and the Company's right of repurchase with respect to such shares of Restricted Stock shall lapse. The Options shall remain exercisable following the termination for the period prescribed in the respective option agreements.

(iii) Performance Shares. The Employee will vest in one hundred percent (100%) of the performance shares subject to his or her performance share awards, if any, and the payment of such vested performance shares shall be made as soon as practicable following the date of termination in accordance with the provisions of the applicable performance share award, except as otherwise provided herein. For this purpose, if the Change of Control occurs during the performance period applicable to a performance share award, the "performance shares subject to his or her performance share awards" shall be deemed to be one hundred percent (100%) of the Target Number of Performance Shares (as set forth in the applicable performance share award). Notwithstanding any provision in this Agreement or the applicable performance share award to the contrary and to the extent required to avoid imposition of any additional tax or income recognition under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), prior to actual payment to the Employee, the performance shares for which the vesting would not have otherwise been accelerated under the terms of the applicable performance share award shall be paid at the same time or times as if such performance shares had vested in accordance with the vesting schedule and provisions set forth in the applicable performance share award.

(iv) Other Awards. With respect to outstanding awards issued under the Company's stock plans other than award types addressed in Sections 5(a)(ii) and (iii) above, the Employee will immediately vest in and have the right to exercise such awards, all restrictions will lapse, and all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. Such awards will be paid or otherwise settled as soon as administratively practicable following the date of termination or, if later, the date of exercise. Notwithstanding the foregoing, to the extent required to avoid imposition of any additional tax or income recognition under Section 409A of the Code, such awards shall be paid or settled at the same time or times that the awards otherwise would have been paid or settled in the absence of this Section 5(a)(iv).

(v) Additional Cash Payment. The Employee shall be entitled to receive an additional lump-sum severance payment (less applicable withholding taxes) equal to the result of (A) times (B). For this purpose, “A” will equal 24, and “B” will equal the amount of the monthly premium that would be required for the first month of coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended and all applicable regulations (referred to collectively as “COBRA”), with the premium calculated on the assumption that the Employee in fact elects coverage for himself or herself, and any eligible spouse and/or dependents of the Employee that were enrolled in the applicable Company health plan immediately prior to the Change of Control. However, the Employee will be eligible for this taxable payment without regard to whether he or she actually elects COBRA continuation coverage.

(b) Timing of Severance Payments. If the release agreement required by Section 5(a) becomes effective by the Release Deadline Date, severance payments and benefits under this Agreement will be paid in a lump sum payment (less any applicable withholding taxes) on the first business day after the Release Deadline Date, but in no event later than March 15th of the calendar year immediately following the calendar year of the Employee’s termination of employment, except as required by Section 5(f). If the Employee should die before all amounts have been paid, such unpaid amounts shall be paid in a lump sum payment (less any applicable withholding taxes) to the Employee’s designated beneficiary, if living, or otherwise to the personal representative of the Employee’s estate, as described in Section 5(f) below.

(c) Voluntary Resignation; Termination for Cause. If the Employee’s employment with the Company terminates (i) voluntarily by the Employee other than for Good Reason or due to Disability or (ii) for Cause by the Company, then the Employee shall not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company’s then existing severance and benefits plans and practices or pursuant to other written agreements with the Company, including, without limitation, any Employment Agreement.

(d) Termination Apart from Change of Control. In the event the Employee’s employment is terminated for any reason, either prior to the occurrence of a Change of Control or after the [NUMBER (XX)]–month period following a Change of Control, then the Employee shall be entitled to receive severance and any other benefits only as may then be established under the Company’s existing written severance and benefits plans and practices or pursuant to other written agreements with the Company, including, without limitation, any Employment Agreement.

(e) Exclusive Remedy. In the event of a termination of Employee’s employment within [NUMBER (XX)] months following a Change of Control, the provisions of this Section 5 are intended to be and are exclusive and in lieu of any other rights or remedies to which the Employee or the Company may otherwise be entitled, whether at law, tort or contract, in equity, or under this Agreement. The Employee shall be entitled to no benefits, compensation or other payments or rights upon termination of employment following a Change in Control other than those benefits expressly set forth in this Section 5.

(f) Section 409A.

(i) Six-Month Delay. Notwithstanding anything to the contrary in this Agreement, no Deferred Compensation Separation Benefits (as defined below) payable under this Agreement will be considered due or payable until the Employee has incurred a “separation from service” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended and the final regulations and any guidance promulgated thereunder (together, “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 the severance benefits payable to the Employee under this Agreement, if any, and any other severance payments or separation benefits that may be considered deferred compensation under Section 409A (together, the “Deferred Compensation Separation Benefits”) otherwise due to the Employee on or within the six (6) month period following the Employee’s separation from service will accrue during such six (6) month period and will become payable in a lump sum payment (less any applicable withholding taxes) on the date six (6) months and one (1) day following the date of the Employee’s separation from service. All subsequent payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. In no event will the Employee have discretion to determine the taxable year of payment of any Deferred Compensation Separation Benefits. Notwithstanding anything herein to the contrary, if the Employee dies following his or her separation from service but prior to the six (6) month anniversary of his or her date of separation, then any payments delayed in accordance with this paragraph will be payable in a lump sum (less any applicable withholding taxes) to the Employee’s estate as soon as administratively practicable after the date of the Employee’s death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit.

(ii) Amendments to this Agreement to Comply with Section 409A. This provision is intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Each payment and benefit payable under this Agreement is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations. The Company and the Employee agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions, which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to the Employee under

Section 409A. In no event will the Company reimburse the Employee for any taxes that may be imposed on the Employee as result of Section 409A.

6. Limitation on Payments . In the event that the severance and other benefits provided for in this Agreement or otherwise payable to the Employee (a) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and (b) but for this Section 6, would be subject to the excise tax imposed by Section 4999 of the Code, then the Employee's severance benefits under Section 5(a) or other benefits shall be either:

(i) delivered in full, or

(ii) delivered as to such lesser extent which would result in no portion of such severance benefits being subject to excise tax under Section 4999 of the Code,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the Employee on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits and other benefits may be taxable under Section 4999 of the Code.

In the event of a reduction in accordance with Section 6(ii), the reduction will occur, with respect to such severance and other benefits considered "parachute payments" within the meaning of Section 280G of the Code, in the following order:

- First, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is treated as "contingent" (see definition below in this Section 6) under Section 280G of the Code, (ii) are assumed or substituted by the surviving corporation or its parent, and (iii) are "underwater" or "at-the-money" (see definitions below in this Section 6);
- Second, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is not treated as "contingent" under Section 280G of the Code, (ii) accelerate vesting under Section 5(a) above or otherwise, (iii) are assumed or substituted by the surviving corporation or its parent, and (iv) are "underwater" or "at-the-money";
- Third, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is treated as "contingent" under Section 280G of the Code, (ii) are assumed or substituted by the surviving corporation or its parent, and (iii) are "in-the-money" (see definition below in this Section 6);
- Fourth, restricted stock, restricted stock units, performance shares or other outstanding equity awards (other than stock options or stock appreciation rights) that meet all of the following: (i) the grant of which is treated as "contingent" under Section 280G of the Code and (ii) either are assumed or substituted by the surviving corporation or its parent or "cashed-out" (see definition below in this Section 6) in connection with the Change of Control;
- Fifth, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is treated as "contingent" under Section 280G of the Code and (ii) are "cashed-out" in connection with the Change of Control;
- Sixth, cash severance, bonus, retention and other similar pay (including such cash severance pay provided pursuant to Sections 5(a)(i) and 5(a)(v) above) that are treated as "contingent" under Section 280G of the Code;
- Seventh, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is not treated as "contingent" under Section 280G of the Code, (ii) accelerate vesting under Section 5(a) above or otherwise, (iii) are assumed or substituted by the surviving corporation or its parent, and (iv) are "in-the-money";
- Eighth, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is not treated as "contingent" under Section 280G of the Code, (ii) accelerate vesting under Section 5(a) above or otherwise, (iii) are "cashed-out" in connection with the Change of Control, and (iv) are "in-the-money";
- Ninth, restricted stock, restricted stock units, performance shares or other outstanding equity awards (other than stock options or stock appreciation rights) that meet all of the following: (i) the grant of which is not treated as "contingent" under Section 280G of the Code, (ii) accelerate vesting under Section 5(a) above or otherwise, and (iii) either are assumed or substituted by the surviving corporation or its parent or "cashed-out" in connection with the Change of Control;
- Tenth, the acceleration in the timing of any "vested" payment in cash or in kind. For this purpose, a payment will be considered "vested" if the payment is vested at the time the payment acceleration occurs and any vesting of the payment that has occurred is not considered "contingent" under Section 280G of the Code;
- Eleventh, Company-paid coverage under the long-term disability and life insurance plans and any other taxable benefits provided or paid for by the Company; and
- Twelfth, Company-paid coverage under the health, dental, and vision plans and any other tax-free benefits provided or paid for by the Company.

For purposes of this Section 6, the following rules will apply:

- In the first and second categories above, if there are multiple grants of stock options or stock appreciation rights, the most “underwater” award will be reduced first with each subsequent reduction applying to the next most “underwater” award;
- In the third and seventh categories above, if there are multiple grants of stock options or stock appreciation rights, the least “in-the-money” award will be reduced first with each subsequent reduction applying to the next most “in-the-money” award;
- In the fourth, fifth, eighth, and ninth categories, if there are multiple grants of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares or other equity awards, each grant within each category will be reduced on a pro-rata basis; and
- In the sixth and tenth categories, if there are multiple types of cash or in-kind payments, each payment within each category will be reduced on a pro-rata basis.

For clarification purposes, these rules do not change the order described above but rather provide ordering rules that apply within each category in the event of multiple equity grants or payments.

For purposes of this Section 6, the following terms used herein will mean:

- Whether an equity award will be treated as “contingent” will be determined in accordance with Treasury Regulation Section 1.280G-1 A-22.
- An equity award will be “cashed-out” in connection with a Change of Control if the award is cancelled after payment to the Employee of an amount in cash or cash equivalents equal to (A) the fair market value of the shares of Company Common Stock subject to the equity award at the time of the Change of Control (as determined in accordance with the applicable equity award agreement) minus (B) the exercise or purchase price, if any, of the shares of Company Common Stock subject to the equity award at the time of the Change of Control.
- A stock option or stock appreciation right will be considered “underwater” if: (A) the award accelerates or is valued for purposes of Section 280G on the date of the Change of Control and the per share exercise price of the award is greater than the per share consideration provided to holders of shares of Company Common Stock pursuant to the Change of Control, or (B) the award accelerates or is valued for purposes of Section 280G of the Code on any date after the Change of Control and the per share exercise price of the award, as adjusted pursuant to the Change of Control, is greater than the fair market value of a share of common stock with respect to which the award may be exercised.
- A stock option or stock appreciation right will be considered “at-the-money” if: (A) the award accelerates or is valued for purposes of Section 280G on the date of the Change of Control and the per share exercise price of the award is equal to the per share consideration provided to holders of shares of Company Common Stock pursuant to the Change of Control, or (B) the award accelerates or is valued for purposes of Section 280G of the Code on any date after the Change of Control and the per share exercise price of the award, as adjusted pursuant to the Change of Control, is equal to the fair market value of a share of common stock with respect to which the award may be exercised.
- A stock option or stock appreciation right will be considered “in-the-money” if: (A) the award accelerates or is valued for purposes of Section 280G on the date of the Change of Control and the per share exercise price of the award is less than the per share consideration provided to holders of shares of Company Common Stock pursuant to the Change of Control, or (B) the award accelerates or is valued for purposes of Section 280G of the Code on any date after the Change of Control and the per share exercise price of the award, as adjusted pursuant to the Change of Control, is less than the fair market value of a share of common stock with respect to which the award may be exercised.

Unless the Company and the Employee otherwise agree in writing, any determination required under this Section 6 shall be made in writing by a nationally recognized accounting or valuation firm selected by the Company (the “Accountants”), whose determination shall be conclusive and binding upon the Employee and the Company for all purposes. For purposes of making the calculations required by this Section6, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 6. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 6.

7. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Cause. “Cause” shall mean (i) an act of personal dishonesty taken by the Employee in connection with his or her responsibilities as an employee and intended to result in substantial personal enrichment of the Employee, (ii) Employee being convicted of a felony, (iii) a willful act by the Employee which constitutes gross misconduct and which is injurious to the Company, or (iv) following delivery to the Employee of a written demand for performance from the Company which describes the basis for the Company’s reasonable belief that the Employee has not substantially performed his or her duties, continued violations by the Employee of the Employee's obligations to the Company which are demonstrably willful and deliberate on the Employee's part.

(b) Change of Control . "Change of Control" means the occurrence of any of the following:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the "beneficial owner" (as defined in Rule 13d–3 under said Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) Any action or event occurring within a two–year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the date hereof, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall 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); or

(iii) 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) at least sixty percent (60%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iv) The consummation of the sale, lease or other disposition by the Company of all or substantially all the Company's assets.

(c) Disability . "Disability" shall mean that the Employee has been unable to perform his or her Company duties as the result of his or her incapacity due to physical or mental illness, and such inability, at least twenty-six (26) weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Employee or the Employee's legal representative (such determination as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least thirty (30) days' written notice by the Company of its intention to terminate the Employee's employment. In the event that the Employee resumes the performance of substantially all of his or her duties hereunder before the termination of his or her employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.

(d) Good Reason . "Good Reason" means without the Employee's express written consent (i) a material reduction of the Employee's duties, title, authority or responsibilities, relative to the Employee's duties, title, authority or responsibilities as in effect immediately prior to such reduction, or the assignment to Employee of such reduced duties, title, authority or responsibilities; provided , however , that a reduction in duties, title, authority or responsibilities solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Senior Vice-President of a business unit of the Company remains as such following a Change of Control) shall not by itself constitute grounds for a "Voluntary Termination for Good Reason"; (ii) a substantial reduction of the facilities and perquisites (including office space and location) available to the Employee immediately prior to such reduction; (iii) a reduction by the Company in the base compensation or target annual bonus opportunity of the Employee as in effect immediately prior to such reduction; (iv) a material reduction by the Company in the kind or level of benefits to which the Employee was entitled immediately prior to such reduction with the result that such Employee's overall benefits package is significantly reduced; or (v) the relocation of the Employee to a facility or a location more than thirty-five (35) miles from such Employee's then present location.

8. Successors .

(a) The Company's Successors . Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers an agreement pursuant to a purchase, merger, consolidation, liquidation or otherwise as described in this Section 8(a) or which becomes bound by the terms of this Agreement by operation of law.

(b) The Employee's Successors . The terms of this Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

9. Notice .

(a) General . All notices and other communications required or permitted hereunder shall be in writing, shall be effective when given, and shall in any event be deemed to be given upon receipt or, if earlier, (i) five (5) days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by first class mail, postage prepaid, (ii) upon delivery, if delivered by hand, (iii) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, freight prepaid or (iv) one (1) business day after the business day of facsimile transmission, if delivered by facsimile transmission with copy by first class mail, postage prepaid, and shall be addressed (A) if to Employee, at his or her last known residential address and (B) if to the Company, at the address of its principal corporate offices (attention: Secretary), or in any such case at such other address as a party may designate by ten (10) days' advance written notice to the other party pursuant to the provisions above.

(b) Notice of Termination . Any termination by the Company for Cause or by the Employee for Good Reason or due to Disability or as a result of any voluntary resignation shall be communicated by a notice of termination to the other party hereto given in accordance with this Section 9(b) of this Agreement. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date (which shall be not more than thirty (30) days after the giving of such notice). The failure by the Employee to include in the notice any fact or circumstance which contributes to a showing of Good Reason or Disability shall not waive any right of the Employee hereunder or preclude the Employee from asserting such fact or circumstance in enforcing his or her rights hereunder.

10. Miscellaneous Provisions .

(a) No Duty to Mitigate . The Employee shall not be required to mitigate the amount of any payment contemplated by this Agreement, nor shall any such payment be reduced by any earnings that the Employee may receive from any other source.

(b) Waiver . No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Company (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Headings . All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(d) Entire Agreement . This Agreement, together with any equity award agreement, constitutes the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof. With respect to equity awards granted on or after the date hereof, the acceleration of vesting provided herein will apply to such awards except to the extent otherwise explicitly provided in the applicable equity award agreement.

(e) Choice of Law . The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California. The Superior Court of Santa Clara County and/or the United States District Court for the Northern District of California shall have exclusive jurisdiction and venue over all controversies in connection with this Agreement.

(f) Severability . The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(g) Withholding . All payments made pursuant to this Agreement will be subject to withholding of applicable income and employment taxes.

(h) Counterparts . This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

COMPANY	POLYCOM, INC.	
	By:	______________________
		[NAME]
	Title:	______________________
	Date:	______________________
EMPLOYEE	By:	______________________
		[NAME]
	Title:	______________________
	Date:	______________________

Exhibit 10.6

POLYCOM, INC. EXECUTIVE SEVERANCE PLAN AND SUMMARY PLAN DESCRIPTION

(Amendment and Restatement Effective as of July 30, 2014)

1. **Introduction.** The purpose of this Polycom, Inc. Executive Severance Plan (the " **Plan** ") is to provide assurances of specified severance benefits to eligible employees of the Company whose employment is subject to being involuntarily terminated other than for death, Disability, or Cause or voluntarily terminated for Good Reason under the circumstances described in the Plan. This Plan is an " **employee welfare benefit plan,** " as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended. This document constitutes both the written instrument under which the Plan is maintained and the summary plan description for the Plan.

2. **Important Terms.** The following words and phrases, when the initial letter of the term is capitalized, shall have the meanings set forth below, unless a different meaning is plainly required by the context:

2.1 **"Administrator"** means the Compensation Committee of the Board or another duly constituted committee of members of the Board, or any person to whom the Administrator has delegated any authority or responsibility pursuant to Section 11, but only to the extent of such delegation.

2.2 **"Base Pay"** means a Covered Employee's regular straight-time, annual salary as in effect during the last regularly scheduled payroll period immediately preceding the date on which an Involuntary Termination occurs. Base Pay does not include payments for overtime, shift premium, incentive compensation, incentive payments, bonuses, commissions or other compensation.

2.3 **"Board"** means the Board of Directors of the Company.

2.4 **"Cause"** means (i) the Covered Employee's willful and continued failure to perform the duties and responsibilities of his or her position after there has been delivered to the Covered Employee a written demand for performance from the Administrator or the Company's Chief Executive Officer that describes the basis for the Administrator or Chief Executive Officer's belief that the Covered Employee has not substantially performed his or her duties and the Covered Employee has not corrected such failure within thirty (30) days of such written demand; (ii) any act of personal dishonesty taken by the Covered Employee in connection with his or her responsibilities as an employee of the Company with the intention or reasonable expectation that such action may result in the substantial personal enrichment of the Covered Employee; (iii) the Covered Employee's conviction of, or plea of nolo contendere to, a felony or misdemeanor that the Administrator reasonably believes has had or will have a material detrimental effect on the Company's reputation or business; (iv) a material violation by the Covered Employee of any written Company employment policy or standard of conduct; (v) the Covered Employee being found liable in any Securities and Exchange Commission or other civil or criminal securities law action or entering any cease and desist order with respect to such action (regardless of whether or not the Covered Employee admits or denies liability); (vi) the Covered Employee (A) obstructing or impeding; (B) endeavoring to obstruct, impede or improperly influence, or (C) failing to materially cooperate with, any investigation authorized by the Board or any governmental or self-regulatory entity (an " **Investigation** "); however, the Covered Employee's failure to waive attorney-client privilege relating to communications with the Covered Employee's own attorney in connection with an Investigation will not constitute "Cause"; or (vii) the Covered Employee's disqualification or bar by any governmental or self-regulatory authority from serving in the capacity contemplated by his or her position or the Covered Employee's loss of any governmental or self-regulatory license that is reasonably necessary for the Covered Employee to perform his or her responsibilities to the Company, if (A) the disqualification, bar or loss continues for more than thirty (30) days, and (B) during that period the Company uses its good faith efforts to cause the disqualification or bar to be lifted or the license replaced.

2.5 " **Change of Control** " means the occurrence of any of the following:

(i) Any " **person** " (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the "beneficial owner" (as defined in Rule 13d–3 under said Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) Any action or event occurring within a two–year period, as a result of which fewer than a majority of the directors are Incumbent Directors. " **Incumbent Directors** " shall mean directors who either (A) are directors of the Company as of the date hereof, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the

Incumbent Directors at the time of such election or nomination (but shall 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); or

(iii) 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) at least sixty percent (60%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iv) The consummation of the sale, lease or other disposition by the Company of all or substantially all the Company's assets.

2.6 " **Company** " means Polycom, Inc., a Delaware corporation.

2.7 " **Covered Employee** " means an employee of the Company or of any parent or subsidiary of the Company who has been designated by the Administrator to participate in the Plan as shown on Appendix A . For this purpose, each employee of the Company who becomes a Section 16 Officer on or after the Effective Date shall be deemed to have been designated by the Administrator to participate in the Plan as of the date he or she becomes a Section 16 Officer, unless otherwise specifically determined in advance by the Administrator.

2.8 " **Disability** " means total and permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the " **Code** ").

2.9 " **Effective Date** " means initially February 3, 2010, as amended and restated as of January 31, 2013, December 2, 2013, and July 30, 2014.

2.10 " **ERISA** " means the Employee Retirement Income Security Act of 1974, as amended.

2.11 " **Good Reason** " means the Covered Employee's termination of employment within thirty (30) days following the end of the Cure Period (as defined below) as a result of the occurrence of any of the following without his or her written consent: (i) a material diminution by the Company in the Covered Employee's Base Pay as in effect immediately prior to such reduction; provided, however, that, a reduction of Base Pay that (combined with all prior reductions) totals twenty percent (20%) or less and also applies to substantially all other senior executives of the Company will not constitute "Good Reason"; or (ii) the relocation of the Covered Employee's principal work location to a facility or a location more than thirty-five (35) miles from his or her prior location; provided, however, that the Covered Employee must provide written notice to the Administrator of the condition that could constitute a "Good Reason" event within sixty (60) days of the initial existence of such condition and such condition must not have been remedied by the Company within thirty (30) days (the " **Cure Period** ") of such written notice. Notwithstanding the foregoing in this Section 2.11, with respect only to the Covered Employee who held the position of Chief Executive Officer of the Company as of December 23, 2013 (the " **CEO** "), "Good Reason" will have the meaning as set forth in Section 12 of the offer letter entered into between the Company and the CEO dated November 20, 2013, as may be amended from time to time.

2.12 " **Involuntary Termination** " means a termination of employment of a Covered Employee under the circumstances described in Section 4.1.

2.13 " **Plan** " means the Polycom, Inc. Executive Severance Plan, as set forth in this document, and as hereafter amended from time to time.

2.14 " **Section 16 Officer** " means an employee of the Company who has been designated by the Board, at its discretion and consistent with applicable law, as being subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended.

2.15 " **Severance Benefits** " means the compensation and other benefits that the Covered Employee will be provided in the circumstances described in Section 4.

2.16 " **Target Bonus** " means, the Covered Employee's target bonus percentage under the applicable Company bonus plan as in effect for the fiscal year prior to the fiscal year in which the Covered Employee's Involuntary Termination occurs, times the Covered Employee's Base Pay.

3. **Eligibility for Severance Benefits** . An individual is eligible for Severance Benefits under the Plan, in the amount set forth in Section 4 only if he or she is a Covered Employee on the date he or she experiences an Involuntary Termination.

4. **Severance Benefits** .

4.1 **Involuntary Termination** . If (i) a Covered Employee terminates his or her employment with the Company (or any parent or subsidiary of the Company) for Good Reason, or (ii) the Company (or any parent or subsidiary of the Company) terminates the Covered Employee's employment for a reason other than (x) Cause or (y) the Covered Employee's death or Disability, then, subject to the Covered Employee's compliance with Section 6, the Covered Employee shall receive the following Severance Benefits from the Company:

4.1.1 **Cash Severance Benefits** . The Covered Employee shall be entitled to a lump sum payment in cash equal to one hundred percent (100%) of the sum of (i) the Covered Employee's Base Pay, and (ii) the Covered Employee's Target Bonus. Notwithstanding any contrary provision of the preceding sentence, with respect to the CEO only, the lump sum payment instead shall equal one hundred fifty percent (150%) of the sum of the Covered Employee's Base Pay and Target Bonus.

4.1.2 **Medical Benefits** . The Covered Employee will receive a lump sum cash payment in an aggregate amount equal to the Covered Employee's applicable premium cost for continued Company group health coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended (" **COBRA** ") based on the Covered Employee's elections with respect to health coverage immediately prior to the Covered Employee's termination of employment with the Company (which amount will be based on the premium for the first month of COBRA coverage) for a period of twelve (12) months (or, with respect to the CEO only, eighteen (18) months), which lump sum payment will be made regardless of whether the Covered Employee elects COBRA continuation coverage.

4.1.3 **Outplacement Assistance** . The Covered Employee shall be entitled to transitional outplacement benefits in accordance with the then-existing policies and guidelines of the Company.

4.1.4 **Equity Awards** . With respect to the CEO only, all of the Covered Employee's then−outstanding and unvested equity awards covering shares of the Company's common stock (" **Shares** ") that are scheduled to vest solely based on continued employment with the Company (for the avoidance of doubt, excluding any then−outstanding and unvested equity awards covering Shares that remain subject to the achievement of any performance goals), will accelerate vesting as if the Covered Employee had remained employed with the Company through the date eighteen (18) months following the date of the Covered Employee's termination of employment with the Company. The equity awards will remain subject to all other terms and conditions set forth in the applicable equity plan and award agreement(s) under which the equity awards were granted.

5. **Limitation on Payments** .

5.1 **Limitation** . In the event that the severance and other benefits provided for in the Plan or otherwise payable to the Covered Employee (i) constitute " **parachute payments** " within the meaning of Section 280G of the Code and (ii) but for this Section 5, would be subject to the excise tax imposed by Section 4999 of the Code, then the Covered Employee's Severance Benefits or other benefits shall be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such severance benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the Covered Employee on an after-tax basis, of the greatest amount of Severance Benefits, notwithstanding that all or some portion of such Severance Benefits and other benefits may be taxable under Section 4999 of the Code.

5.1.1 **Reduction Order** . In the event of a reduction in accordance with Section 5.1, the reduction will occur, with respect to such Severance Benefits and other benefits considered parachute payments within the meaning of Section 280G of the Code, in the following order:

- First, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is treated as contingent (see definition in Section 5.3 below) under Section 280G of the Code, (ii) are assumed or substituted by the surviving corporation or its parent, and (iii) are underwater or at-the-money (see definitions in Section 5.3 below);

- Second, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is not treated as contingent under Section 280G of the Code, (ii) accelerate vesting, (iii) are assumed or substituted by the surviving corporation or its parent, and (iv) are underwater or at-the-money;

- Third, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is treated as contingent under Section 280G of the Code, (ii) are assumed or substituted by the surviving corporation or its parent, and (iii) are in-the-money (see definition in Section 5.3 below);

- Fourth, restricted stock, restricted stock units, performance shares or other outstanding equity awards (other than stock options or stock appreciation rights) that meet all of the following: (i) the grant of which is treated as contingent under Section 280G of the Code and (ii) either are assumed or substituted by the surviving corporation or its parent or cashed-out (see definition in Section 5.3 below) in connection with a Change of Control;

- Fifth, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is treated as contingent under Section 280G of the Code and (ii) are cashed-out in connection with a Change of Control;

- Sixth, cash severance, bonus, retention and other similar pay (including such cash severance pay provided pursuant to Section 4.1.1 and 4.1.2 above) that are treated as contingent under Section 280G of the Code;

- Seventh, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is not treated as contingent under Section 280G of the Code, (ii) accelerate vesting, (iii) are assumed or substituted by the surviving corporation or its parent, and (iv) are in-the-money;

- Eighth, stock options or stock appreciation rights that meet all of the following: (i) the grant of which is not treated as contingent under Section 280G of the Code, (ii) accelerate vesting, (iii) are cashed-out in connection with a Change of Control, and (iv) are in-the-money;

- Ninth, restricted stock, restricted stock units, performance shares or other outstanding equity awards (other than stock options or stock appreciation rights) that meet all of the following: (i) the grant of which is not treated as contingent under Section 280G of the Code, (ii) accelerate vesting, and (iii) either are assumed or substituted by the surviving corporation or its parent or cashed-out in connection with a Change of Control;

- Tenth, the acceleration in the timing of any vested payment in cash or in kind. For this purpose, a payment will be considered " **vested** " if the payment is vested at the time the payment acceleration occurs and any vesting of the payment that has occurred is not considered contingent under Section 280G of the Code;

- Eleventh, Company-paid coverage under the long-term disability and life insurance plans and any other taxable benefits provided or paid for by the Company; and

- Twelfth, Company-paid coverage under the health, dental, and vision plans and any other tax-free benefits provided or paid for by the Company.

5.2 **Special Rules** . For purposes of this Section 5, the following rules will apply:

- In the first and second categories above, if there are multiple grants of stock options or stock appreciation rights, the most underwater award will be reduced first with each subsequent reduction applying to the next most underwater award;

- In the third and seventh categories above, if there are multiple grants of stock options or stock appreciation rights, the least in-the-money award will be reduced first with each subsequent reduction applying to the next most in-the-money award;

- In the fourth, fifth, eighth, and ninth categories, if there are multiple grants of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares or other equity awards, each grant within each category will be reduced on a pro-rata basis; and

- In the sixth and tenth categories, if there are multiple types of cash or in-kind payments, each payment within each category will be reduced on a pro-rata basis.

For clarification purposes, these rules do not change the order described above, but rather provide ordering rules that apply within each category in the event of multiple equity grants or payments.

5.3 **Special Definitions** . For purposes of this Section 5, the following terms used herein will mean:

- Whether an equity award will be treated as " **contingent** " will be determined in accordance with Treasury Regulation Section 1.280G-1 A-22.

- An equity award will be " **cashed-out** " in connection with a Change of Control of the Company if the award is cancelled after payment to the Covered Employee of an amount in cash or cash equivalents equal to (A) the fair market value of the shares of the Company's common stock (" **Company Common Stock** ") subject to the equity award at the time of a Change of Control minus (B) the exercise or purchase price, if any, of the shares of Company Common Stock subject to the equity award at the time of the Change of Control.

- A stock option or stock appreciation right will be considered " **underwater** " if: (A) the award accelerates or is valued for purposes of Section 280G on the date of the Change of Control and the per share exercise price of the award is greater than the per share consideration provided to holders of shares of Company Common Stock pursuant to the Change of Control, or (B) the award accelerates or is valued for purposes of Section 280G of the Code on any date after the Change of Control and the per share exercise price of the award, as adjusted pursuant to the Change of Control, is greater than the fair market value of a share of common stock with respect to which the award may be exercised.

- A stock option or stock appreciation right will be considered " **at-the-money** " if: (A) the award accelerates or is valued for purposes of Section 280G on the date of the Change of Control and the per share exercise price of the award is equal to the per share consideration provided to holders of shares of Company Common Stock pursuant to the Change of Control, or (B) the award accelerates or is valued for purposes of Section 280G of the Code on any date after the Change of Control and the per share exercise price of the award, as adjusted pursuant to the Change of Control, is equal to the fair market value of a share of common stock with respect to which the award may be exercised.

- A stock option or stock appreciation right will be considered "in-the-money" if: (A) the award accelerates or is valued for purposes of Section 280G on the date of the Change of Control and the per share exercise price of the award is less than the per share consideration provided to holders of shares of Company Common Stock pursuant to the Change of Control, or (B) the award accelerates or is valued for purposes of Section 280G of the Code on any date after the Change of Control and the per share exercise price of the award, as adjusted pursuant to the Change of Control, is less than the fair market value of a share of common stock with respect to which the award may be exercised.

5.4 **Independent Public Accountant Requirement** . Unless the Company and the Covered Employee otherwise agree in writing, any determination required under this Section 5 shall be made in writing by a nationally recognized accounting or valuation firm selected by the Administrator (the " **Accountants** "), whose determination shall be conclusive and binding upon the Covered Employee and the Company for all purposes. For purposes of making the calculations required by this Section 5, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Covered Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.

6. **Conditions to Receipt of Severance** .

6.1 **Release Agreement** . As a condition to receiving Severance Benefits under this Plan, each Covered Employee will be required to sign a waiver and release of all claims arising out of his or her Involuntary Termination and employment with the Company and its subsidiaries and affiliates (the " **Release** "). The Release shall be in a form specified by the Company. The Release will include specific information regarding the amount of time the Covered Employee will have to consider the terms of the Release and return the signed agreement to the Company; provided, however, that in all cases the Release must become effective and irrevocable no later than the sixtieth (60th) day following the Covered Employee's Involuntary Termination (the " **Release Deadline** ").

6.2 **Non-Solicitation** . As a condition to receiving Severance Benefits under this Plan, each Covered Employee agrees that the Covered Employee will not solicit any employee of the Company for employment other than at the Company for twelve (12) months following his or her termination. Public solicitation, such as by taking out general advertisements in a newspaper, advertising on the web and the like, not specifically aimed at an individual employee or employees of the Company, will not constitute a breach of this Section 6.2.

6.3 **Non-Competition** . As a condition to receiving Severance Benefits under this Plan, the Covered Employee must sign an agreement confirming that, with respect to any businesses of the Company or any of its subsidiaries during the period beginning on the date of the Covered Employee's termination of employment from the Company and all of its subsidiaries (collectively, the "Businesses"), the Covered Employee agrees that during the one-year period following such termination of employment, the Covered Employee, directly or indirectly, whether as employee, owner, sole proprietor, partner, director, member, consultant, agent, founder, co-venturer or otherwise, will: (i) 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 Businesses (except that it will not be a violation of this Section 6.3 for the Covered Employee to own as a passive investment not more than one percent of any class of publicly traded securities of any entity); nor (ii) directly or indirectly solicit business from any of the Businesses' customers and users on behalf of any business that directly competes with the Businesses. Notwithstanding the preceding, the Administrator, in its discretion, may waive the requirements of this Section 6.3 (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 Section 6.3 is precluded by applicable law. This Section 6.3 will not apply to any Covered Employee who is an employee of the Company or of any parent or subsidiary of the Company and whose principal work location is in the State of California.

6.4 **Nondisparagement** . As a condition to receiving Severance Benefits under this Plan during the Covered Employee's employment with the Company and for twelve (12) months following his or her termination, the Covered Employee will not knowingly and materially disparage, libel, slander, or otherwise make any materially derogatory statements regarding the Company. Notwithstanding the foregoing, nothing contained in the Plan will be deemed to restrict the Covered Employee from providing information to any governmental or regulatory agency or body (or in any way limit the content of any such information) to the extent the Covered Employee is required to provide such information pursuant a subpoena or as otherwise required by applicable law or regulation, or in accordance with any governmental investigation or audit relating to the Company.

6.5 **Other Requirements** . A Covered Employee's receipt of severance payments pursuant to Section 4.1 will be subject to the Covered Employee continuing to comply with the provisions of this Section 6 and the terms of any confidential information agreement, proprietary information and inventions agreement and such other appropriate agreement between the Covered Employee and the Company. Benefits under this Plan shall terminate immediately for a Covered Employee if such Covered Employee, at any time, violates any such agreement and/or the provisions of this Section 6.

7. **Timing of Severance Benefits** . Subject to Section 9 below, the Severance Benefits shall commence or be paid, as applicable, on the sixtieth (60th) day following the date of the Covered Employee's termination of employment (or, if required by Section 9, the Covered Employee's separation from service), or, if later, such time as required by Section 9.1, except that the vesting acceleration of outstanding awards of stock options, stock appreciation rights or restricted stock not subject to Section 409A will become effective on the date the Release becomes effective and irrevocable. Except as required by Section 9.1, any lump sum or installment payments that would have been made to the Covered Employee during the sixty (60) day period immediately following the Covered Employee's termination of employment but for the preceding sentence will be paid to the Covered Employee on the sixtieth (60th) day following his or her termination of employment and the remaining payments will be made as provided in this Plan.

8. **Non-Duplication of Benefits** . Notwithstanding any other provision in the Plan to the contrary, if the Covered Employee is entitled to any severance, change of control or similar benefits outside of the Plan by operation of applicable law or under another company-sponsored plan, policy, contract, or arrangement, his or her benefits under the Plan shall be reduced by the value of the severance, change of control or similar benefits that the Covered Employee receives by operation of applicable law or under any company-sponsored plan, policy, contract, or arrangement, all as determined by the Administrator in its discretion.

9. **Section 409A** .

9.1 Notwithstanding anything to the contrary in the Plan, no Deferred Compensation Separation Benefits (as defined below) or other severance benefits that are exempt from Section 409A (as defined below) pursuant to Treasury Regulation Section 1.409A-1(b)(9) will become payable until the Covered Employee has a " **separation from service** " within the meaning of Section 409A of the Code and the final regulations and any guidance promulgated thereunder (" **Section 409A** "). Further, if the Covered Employee is subject to Section 409A and is a " **specified employee** " within the meaning of Section 409A at the time of the Covered Employee's separation from service (other than due to death), then any Deferred Compensation Separation Benefits otherwise due to the Covered Employee on or within the six (6) month period following his or her separation from service will accrue during such six (6) month period and will become payable in a lump sum payment (less applicable withholding taxes) on the date six (6) months and one (1) day following the date of the Covered Employee's separation from service. All subsequent payments of Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. For purposes of clarity, the following severance benefits are intended not to constitute Deferred Compensation Separation Benefits: (A) the vesting acceleration of outstanding awards of stock options, stock appreciation rights or restricted stock unless such awards include deferral or other features that cause such awards to be subject to Section 409A; and (B) the Company-paid continued group health plan coverage described in Section 4.1.2, except with respect to any lump sum cash payment made under

Section 4.1.2; and (C) any other payment or benefit that satisfies the conditions described in Section 9.2 below. Notwithstanding anything herein to the contrary, if the Covered Employee dies following his or her separation from service, but prior to the six (6) month anniversary of his or her date of separation, then any payments delayed in accordance with this paragraph will be payable in a lump sum (less applicable withholding taxes) to the Covered Employee's estate as soon as administratively practicable after the date of his or her death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. In no event will a Covered Employee have discretion to determine the taxable year of payment of any Deferred Compensation Separation Benefit. For purposes of the Plan, " **Deferred Compensation Separation Benefits** " will mean the severance payments or benefits payable to the Covered Employee, if any, pursuant to the Plan that, when considered together with any other severance payments or separation benefits, is considered deferred compensation under Section 409A.

9.2 Any severance payment that satisfies the requirements of the " **short-term deferral** " rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute a Deferred Compensation Separation Benefit. Any severance payment that entitles the Covered Employee to taxable reimbursements or taxable in-kind benefits covered by Section 1.409A-1(b)(9)(v) shall not constitute a Deferred Compensation Separation Benefit.

9.3 It is the intent of this Plan to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Each payment and benefit payable under this Plan is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations. Notwithstanding anything to the contrary in the Plan, including but not limited to Section 11, the Company reserves the right to amend the Plan as it deems necessary or advisable, in its sole discretion and without the consent of the Covered Employees, to comply with Section 409A of the Code or to otherwise avoid income recognition under Section 409A of the Code prior to the actual payment of Severance Benefits or imposition of any additional tax (provided that any such amendment that materially reduces the benefits provided hereunder shall be subject to the advance notice requirement of Section 13). In no event will the Company reimburse a Covered Employee for any taxes that may be imposed on the Covered Employee as result of Section 409A.

10. **Withholding** . The Company will withhold from any Severance Benefits all federal, state, local and taxes required to be withheld therefrom and any other required payroll deductions.

11. **Administration** . The Plan will be administered and interpreted by the Administrator (in his or her sole discretion). The Administrator is the " **named fiduciary** " of the Plan for purposes of ERISA and will be subject to the fiduciary standards of ERISA when acting in such capacity. Any decision made or other action taken by the Administrator with respect to the Plan, and any interpretation by the Administrator of any term or condition of the Plan, or any related document, will be conclusive and binding on all persons and be given the maximum possible deference allowed by law. In accordance with Section 2.1, the Administrator may, in its sole discretion and on such terms and conditions as it may provide, delegate in writing to one or more officers of the Company all or any portion of its authority or responsibility with respect to the Plan; *provided, however* , that any Plan amendment or termination or any other action that could reasonably be expected to increase materially the cost of the Plan must be approved by the Board or the Compensation Committee of the Board.

12. **Eligibility to Participate** . To the extent that the Administrator has delegated administrative authority or responsibility to one or more officers of the Company in accordance with Sections 2.1 and 11, each such officer will not be excluded from participating in the Plan if otherwise eligible, but he or she is not entitled to act or pass upon any matters pertaining specifically to his or her own benefit or eligibility under the Plan. The Administrator will act upon any matters pertaining specifically to the benefit or eligibility of each such officer under the Plan.

13. **Amendment or Termination** . The Company, by action of the Administrator, reserves the right to amend or terminate the Plan at any time, without advance notice to any Covered Employee and without regard to the effect of the amendment or termination on any Covered Employee or on any other individual. Any amendment or termination of the Plan will be in writing. Notwithstanding the preceding, (a) any amendment to the Plan that causes an individual or group of individuals to cease to be a Covered Employee will not be effective unless it both is approved by the Administrator and communicated to the affected individual(s) in writing at least six (6) months prior to the effective date of the amendment or termination and (b) once a Covered Employee has incurred an Involuntary Termination, no amendment or termination of the Plan may, without that Covered Employee's written consent, reduce or alter to the detriment of the Covered Employee, the Severance Benefits payable to that Covered Employee (including, without limitation, imposing additional conditions or modifying the timing of payment). In addition, notwithstanding the preceding, during the one-year period beginning on a Change of Control, the Company may not, without a Covered Employee's written consent, amend or terminate the Plan in any way, nor take any other action, that (a) prevents that Covered Employee from becoming eligible for Severance Benefits under the Plan, or (b) reduces or alters to the detriment of the Covered Employee the Severance Benefits payable, or potentially payable, to a Covered Employee under the Plan (including, without limitation, imposing additional conditions or modifying the timing of payment). Any action of the Company in amending or terminating the Plan will be taken in a non-fiduciary capacity.

14. **Claims Procedure** . Any employee or other person who believes he or she is entitled to any payment under the Plan may submit a claim in writing to the Administrator within ninety (90) days of the earlier of (i) the date the claimant learned the amount of his or her Severance Benefits under the Plan or (ii) the date the claimant learned that he or she will not be entitled to any benefits under the Plan. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice will also describe any additional information needed to support the claim and the Plan's procedures for appealing the denial. The denial notice will be provided within ninety (90) days after the claim is received. If special circumstances require an extension of time (up to ninety (90) days), written notice of the extension will be given within the initial ninety (90) day period. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision on the claim.

15. **Appeal Procedure** . If the claimant's claim is denied, the claimant (or his or her authorized representative) may apply in writing to the Administrator for a review of the decision denying the claim. Review must be requested within sixty (60) days following the date the claimant received the written notice of their claim denial or else the claimant loses the right to review. The claimant (or representative) then has the right to review and obtain copies of all documents and other information relevant to the claim, upon request and at no charge, and to submit issues and comments in writing. The Administrator will provide written notice of its decision on review within sixty (60) days after it receives a review request. If additional time (up to sixty (60) days) is needed to review the request, the claimant (or representative) will be given written notice of the reason for the delay. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice shall also include a statement that the claimant will be provided, upon request and free of charge, reasonable access to, and copies of, all documents and other information relevant to the claim and a statement regarding the claimant's right to bring an action under Section 502(a) of ERISA.

16. **Source of Payments** . All Severance Benefits will be paid in cash from the general funds of the Company; no separate fund will be established under the Plan, and the Plan will have no assets. No right of any person to receive any payment under the Plan will be any greater than the right of any other general unsecured creditor of the Company.

17. **Inalienability** . In no event may any current or former employee of the Company or any of its subsidiaries or affiliates sell, transfer, anticipate, assign or otherwise dispose of any right or interest under the Plan. At no time will any such right or interest be subject to the claims of creditors nor liable to attachment, execution or other legal process.

18. **No Enlargement of Employment Rights** . Neither the establishment or maintenance of the Plan, any amendment of the Plan, nor the making of any benefit payment hereunder, will be construed to confer upon any individual any right to be continued as an employee of the Company. The Company expressly reserves the right to discharge any of its employees at any time, with or without cause. However, as described in the Plan, a Covered Employee may be entitled to benefits under the Plan depending upon the circumstances of his or her termination of employment.

19. **Successors** . Any successor to the Company of all or substantially all of the Company's business and/or assets (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) will assume the obligations under the Plan and agree expressly to perform the obligations under the Plan in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under the Plan, the term "Company" will include any successor to the Company's business and/or assets which become bound by the terms of the Plan by operation of law, or otherwise.

20. **Applicable Law** . The provisions of the Plan will be construed, administered and enforced in accordance with ERISA and, to the extent applicable, the internal substantive laws of the state of California (but not its conflict of laws provisions).

21. **Severability** . If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability will not affect any other provision of the Plan, and the Plan will be construed and enforced as if such provision had not been included.

22. **Headings** . Headings in this Plan document are for purposes of reference only and will not limit or otherwise affect the meaning hereof.

23. **Indemnification** . The Company hereby agrees to indemnify and hold harmless the officers and employees of the Company, and the members of its boards of directors, from all losses, claims, costs or other liabilities arising from their acts or omissions in connection with the administration, amendment or termination of the Plan, to the maximum extent permitted by applicable law. This indemnity will cover all such liabilities, including judgments, settlements and costs of defense. The Company will provide this indemnity from its own funds to the extent that insurance does not cover such liabilities. This indemnity is in addition to and not in lieu of any other indemnity provided to such person by the Company.

24. **Additional Information** .

Plan Name:	Polycom, Inc. Executive Severance Plan
Plan Sponsor:	Polycom, Inc. c/o Human Resources 6001 America Center Drive San Jose, CA 95002
Identification Numbers:	**EIN:** - 94-312-8324 **PLAN:** 508
Plan Year:	Company's Fiscal Year
Plan Administrator:	Polycom, Inc. *Attention* : Administrator of the Polycom, Inc. Executive Severance Plan 6001 America Center Drive San Jose, CA 95002 (408) 586-6000
Agent for Service of Legal Process:	Polycom, Inc. *Attention* : General Counsel 6001 America Center Drive San Jose, CA 95002 (408) 586-6000 Service of process may also be made upon the Administrator.
Type of Plan	Severance Plan/Employee Welfare Benefit Plan
Plan Costs	The cost of the Plan is paid by the Employer.

25. **Statement of ERISA Rights** .

As a Covered Employee under the Plan, you have certain rights and protections under ERISA:

(a) You may examine (without charge) all documents governing the Plan, including a copy of the latest annual report (Form 5500 Series), if any, filed with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration. These documents are available for your review in the Company's Human Resources Department during regular business hours.

(b) You may obtain copies of all documents governing the operation of the Plan, including copies of the latest annual report (Form 5500 Series), if any, upon written request to the Administrator. A reasonable charge may be made for such copies.

In addition to creating rights for Covered Employees, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan (called " **fiduciaries** ") have a duty to do so prudently and in the interests of you and the other Covered Employees. No one, including the Company or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit under the Plan or exercising your rights under ERISA. However, this rule neither guarantees your employment with the Company or any parent or subsidiary of the Company, nor affects the Company's, or its parent's or subsidiary's, or your right to terminate your employment for other reasons. If your claim for a Plan benefit is denied, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge and to request a review of any denial, all within certain time schedules. (The claim review procedure is explained in Sections 14 and 15 above.)

Under ERISA, there are steps you can take to enforce the above rights. For example, if you request a copy of Plan documents and do not receive them within thirty (30) days, you may file suit in a federal court. In such a case, the court may require the Administrator to provide such documents and to pay you up to $110 a day until you receive them, unless the documents were not sent because of reasons beyond the control of the Administrator. If you have a claim for a Plan benefit that is denied, in whole or in part, and you have been through the Plan's claims and review procedure set forth in Section 15, or you have a claim for a Plan benefit that is ignored, you may file suit in a state or federal court. However, any lawsuit or other court action must be filed no later than one (1) calendar year after receipt of the final claim denial, regardless of any state or federal statutes establishing provisions relating to limitations on actions. If you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court.

The court will decide who will pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds that your claim is frivolous.

If you have any questions regarding the Plan, please contact the Administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Administrator, you should contact the nearest area office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W. Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

Appendix A

Participants in
Polycom, Inc. Executive Severance Plan

Employee Name [1]
Section 16 Officers : Peter Leav Sayed M. Darwish Laura J. Durr Michael Frendo
Non-Section 16 Officers : James R. Kruger Robert B. Steele

1 In accordance with Section 2.7, each U.S. employee of the Company who becomes a Section 16 Officer on or after the Effective Date shall be deemed to have been designated by the Administrator to participate in the Plan as of the date he or she becomes a Section 16 Officer and shall become a Covered Employee on such date, unless otherwise expressly determined by the Administrator. Appendix A shall be deemed to include each employee described in the preceding sentence, notwithstanding that Appendix A has not been updated to include such employee's name in the table above.

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.

August 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.

August 1, 2014	By:	/s/ LAURA J. DURR
	Name:	Laura J. Durr
	Title:	Chief Financial Officer, Executive 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 June 30, 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.

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

Certification of the Chief Financial Officer, Executive 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 June 30, 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.

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