# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2011**

**or**

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

**For the transition period from to**

**Commission File Number: 000-27978**

# POLYCOM, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **DELAWARE** | **94-3128324** |
| **(State or other jurisdiction of** | **(IRS employer** |
| **incorporation or organization)** | **identification number)** |
| **4750 WILLOW ROAD, PLEASANTON, CA** | **94588** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(925) 924-6000**

**(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 x 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 x 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 x | 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 x

There were 177,139,102 shares of the Company s Common Stock, par value $.0005, outstanding on October 21, 2011.

**POLYCOM, INC.**

**INDEX**

**REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2011**

**PART I FINANCIAL INFORMATION**

Table of Contents

## PART I FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

**POLYCOM, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

**(in thousands, except share data)**

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 289,016 | $ 324,188 |
| Short-term investments | 202,181 | 170,154 |
| Trade receivables, net of allowance for doubtful accounts of $1,864 and $1,844 at September 30, 2011 and December 31, 2010 respectively | 205,968 | 154,507 |
| Inventories | 110,829 | 113,994 |
| Deferred taxes | 33,939 | 32,357 |
| Prepaid expenses and other current assets | 50,292 | 41,884 |
| Total current assets | 892,225 | 837,084 |
| Property and equipment, net | 120,532 | 110,321 |
| Long-term investments | 48,345 | 41,316 |
| Goodwill | 567,978 | 493,105 |
| Purchased intangibles, net | 77,815 | 26,580 |
| Deferred taxes | 16,568 | 18,388 |
| Other assets | 20,884 | 20,611 |
| Total assets | $ 1,744,347 | $ 1,547,405 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities | | |
| Accounts payable | $ 100,563 | $ 90,890 |
| Accrued payroll and related liabilities | 35,147 | 35,222 |
| Deferred revenue | 132,071 | 104,919 |
| Other accrued liabilities | 53,013 | 54,651 |
| Total current liabilities | 320,794 | 285,682 |
| Non-current liabilities | | |
| Deferred revenue | 72,600 | 55,292 |
| Taxes payable | 15,285 | 16,690 |
| Deferred taxes | 802 | 2,057 |
| Other non-current liabilities | 12,986 | 12,714 |
| Total non-current liabilities | 101,673 | 86,753 |
| Total liabilities | 422,467 | 372,435 |
| Stockholders equity | | |

| | | |
|---|---|---|
| Common stock, $0.0005 par value; Authorized: 350,000,000 shares; Issued and outstanding: 177,132,858 shares at September 30, 2011 and 173,109,892 shares at December 31, 2010 | 41 | 40 |
| Additional paid-in capital | 1,234,410 | 1,162,201 |
| Cumulative other comprehensive income | 4,663 | 1,112 |
| Retained earnings | 82,766 | 11,617 |
| Total stockholders equity | 1,321,880 | 1,174,970 |
| Total liabilities and stockholders equity | $ 1,744,347 | $ 1,547,405 |

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

Table of Contents

**POLYCOM, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

**(in thousands, except per share amounts)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Revenues: | | | | |
| Product revenues | $ 302,435 | $ 255,496 | $ 889,362 | $ 728,348 |
| Service revenues | 76,582 | 52,573 | 199,429 | 150,510 |
| Total revenues | 379,017 | 308,069 | 1,088,791 | 878,858 |
| Cost of revenues: | | | | |
| Cost of product revenues | 121,271 | 99,913 | 352,922 | 291,463 |
| Cost of service revenues | 31,164 | 25,371 | 82,540 | 74,390 |
| Total cost of revenues | 152,435 | 125,284 | 435,462 | 365,853 |
| Gross profit | 226,582 | 182,785 | 653,329 | 513,005 |
| Operating expenses: | | | | |
| Sales and marketing | 113,108 | 97,214 | 320,717 | 282,491 |
| Research and development | 53,589 | 38,278 | 147,116 | 108,423 |
| General and administrative | 22,347 | 19,440 | 61,993 | 55,627 |
| Amortization of purchased intangibles | 3,009 | 1,406 | 6,093 | 4,267 |
| Restructuring costs | 1,264 | 3,301 | 4,739 | 6,574 |
| Acquisition-related costs | 3,578 | 0 | 7,924 | 0 |
| Litigation reserves and payments | 0 | 0 | 0 | 1,235 |
| Total operating expenses | 196,895 | 159,639 | 548,582 | 458,617 |
| Operating income | 29,687 | 23,146 | 104,747 | 54,388 |
| Interest and other income (expense), net | (1,298) | 293 | (3,305) | (7,931) |
| Income before provision for income taxes | 28,389 | 23,439 | 101,442 | 46,457 |
| Provision for income taxes | 4,669 | 6,171 | 15,201 | 11,174 |
| Net income | $ 23,720 | $ 17,268 | $ 86,241 | $ 35,283 |
| Basic net income per share | $ 0.13 | $ 0.10 | $ 0.49 | $ 0.21 |
| Diluted net income per share | $ 0.13 | $ 0.10 | $ 0.47 | $ 0.20 |
| Weighted average shares outstanding for basic net income per share calculation | 177,249 | 170,626 | 176,325 | 170,090 |
| Weighted average shares outstanding for diluted net income per share calculation | 182,519 | 175,968 | 181,816 | 175,728 |

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

Table of Contents

**POLYCOM, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

**(in thousands)**

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2011 | September 30, 2010 |
| Cash flows from operating activities: | | |
| Net income | $ 86,241 | $ 35,283 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 38,732 | 29,728 |
| Amortization of purchased intangibles | 14,943 | 14,263 |
| Provision for excess and obsolete inventories | 6,189 | 3,337 |
| Non-cash stock-based compensation | 46,583 | 42,410 |
| Impairment of private company investments | 500 | 0 |
| Excess tax benefits from stock-based compensation | (13,330) | (6,649) |
| Write down of investments other-than temporarily impaired | 0 | 6,530 |
| Loss on disposal of property and equipment | 738 | 215 |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Trade receivables | (49,553) | (14,621) |
| Inventories | 1,261 | (34,217) |
| Deferred taxes | (1,383) | (5,068) |
| Prepaid expenses and other assets | (4,705) | (24,353) |
| Accounts payable | 9,466 | 19,323 |
| Taxes payable | 11,553 | 3,571 |
| Other accrued liabilities and deferred revenue | 30,395 | 31,913 |
| Net cash provided by operating activities | 177,630 | 101,665 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (45,404) | (51,816) |
| Purchases of investments | (306,199) | (291,613) |
| Proceeds from sale of investments | 31,687 | 98,310 |
| Proceeds from maturity of investments | 235,412 | 138,895 |
| Cash paid in purchase acquisition, net of cash acquired | (139,041) | 0 |
| Net cash used in investing activities | (223,545) | (106,224) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock under employee option and stock purchase plans | 40,495 | 43,796 |
| Purchase and retirement of common stock | (43,082) | (69,264) |
| Excess tax benefits from stock-based compensation | 13,330 | 6,649 |
| Net cash provided by (used in) financing activities | 10,743 | (18,819) |
| Net decrease in cash and cash equivalents | (35,172) | (23,378) |
| Cash and cash equivalents, beginning of period | 324,188 | 331,098 |
| Cash and cash equivalents, end of period | $ 289,016 | $ 307,720 |

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

Table of Contents

**POLYCOM, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## 1. BASIS OF PRESENTATION

The accompanying unaudited financial statements, consisting of the condensed consolidated balance sheet as of September 30, 2011, the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010, have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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, all adjustments (primarily consisting of normal recurring adjustments) considered necessary for a fair statement have been included.

The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements as of that date but does not include all of the information and footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. 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, 2010.

On June 1, 2011, the Company announced that its Board of Directors approved a two-for-one stock split of the Company s outstanding shares of common stock effected in the form of a 100% stock dividend ( the stock split ). The stock split entitled each stockholder of record at the close of business on June 15, 2011 to receive one additional share of common stock for every one share of common stock owned as of that date, payable by the Company s transfer agent on July 1, 2011. The par value of the Company s common stock was maintained at the pre-split amount of $0.0005 per share. The condensed consolidated financial statements and notes thereto, including all share and per share data, have been restated as if the stock split had occurred as of the earliest period presented.

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 nine months ended September 30, 2011 and are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company s significant accounting policies were described in Note 1 to the audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K ). With the exception of those discussed below, there have been no significant changes to these policies and no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2011, that are of significance or potential significance to the Company.

### *Business Combinations*

The Company recognizes separately from goodwill the fair value of assets acquired and the liabilities assumed. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the Company s estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments retrospectively to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company s consolidated statements of operations.

In addition, uncertain tax positions and tax-related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. The Company reevaluates these items quarterly and records any adjustments to the Company s preliminary estimates to goodwill provided that the Company is within the measurement period and the Company continues to collect information in order to determine their estimated fair values as of the date of acquisition. Subsequent to the measurement period or the Company s final determination of the tax allowance s estimated value, changes to these uncertain tax positions and tax related valuation allowances will affect the Company s provision for income taxes in the Company s consolidated statements of operations.

Table of Contents

***Recent Accounting Pronouncements***

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income that will become effective for the Company beginning January 1, 2012, with earlier adoption permitted. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The Company is currently assessing the potential impact on the adoption of this guidance on its financial statements.

In September 2011, the FASB issued authoritative guidance on testing goodwill for impairment that will become effective for the Company beginning January 1, 2012, with earlier adoption permitted if the Company has not yet performed its 2011 annual impairment test or issued its financial statements. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The Company is currently assessing the potential impact on the adoption of this guidance on its financial statements.

**3. BUSINESS COMBINATIONS**

***Accordent Technologies, Inc.***

On March 21, 2011, the Company completed its acquisition of all of the outstanding shares of Accordent Technologies, Inc. ( Accordent ), a privately held video content management and delivery solutions company headquartered in El Segundo, California, pursuant to the terms of the Agreement and Plan of Merger dated as of March 21, 2011. The total cash consideration for Accordent was approximately $50.0 million. The Company has included the financial results of Accordent in the condensed consolidated financial statements from the date of acquisition. Pro forma results of operations for the acquisition have not been presented because the effect of the Accordent acquisition was not material to the Company s financial results.

The acquisition expands the Company s offerings in the video content management and delivery market. The Accordent solution provides capture solutions for major video use cases, including delivering scalable live webcasts from the studio, providing automated rich media webcasting from the meeting or classroom, adding a streaming extension to videoconferences or enabling user-generated content from the desktop.

The total preliminary purchase price was allocated to the net tangible and intangible assets based upon their fair values as of March 21, 2011. During the nine months ended September 30, 2011, the Company identified purchase price allocation adjustments mainly to the deferred tax liabilities and to a lesser extent, to current assets and liabilities acquired. The purchase price allocation as set forth below has been retrospectively adjusted. The purchase price allocation adjustments decreased current assets, deferred tax liabilities and goodwill by $0.3 million, $3.2 million, and $2.9 million, respectively, and increased current liabilities by less than $0.1 million.

The following table summarizes the estimated fair values of the assets and liabilities assumed at the acquisition date, as retrospectively adjusted (in thousands):

| | | |
|---|---|---|
| Tangible assets: | | |
| Current assets | $ | 2,170 |
| Property, plant and equipment | | 82 |
| Total tangible assets acquired | | 2,252 |
| Liabilities: | | |
| Current liabilities | | (4,112) |
| Long-term liabilities | | (528) |
| Total liabilities assumed | | (4,640) |
| Fair value of net liabilities assumed | | (2,388) |
| Intangible assets consisting of: | | |
| Core and developed technology | | 12,300 |
| Customer and partner relationships | | 4,600 |

| | | |
|---|---|---|
| Trade name | | 700 |
| Deferred tax liability | | (1,625) |
| Goodwill | | 36,454 |
| Total consideration | $ | 50,041 |

Goodwill is not deductible for tax purposes. The goodwill balance is primarily attributable to expected synergies from combining Accordent s video solutions into the Company s product offerings. The fair values of intangible assets were calculated based on the income and cost approaches and are being amortized over 2 to 6 years. The acquisition-related costs were expensed as incurred.

**Table of Contents**

***Hewlett-Packard Visual Collaboration***

On July 27, 2011, the Company acquired the assets of Hewlett-Packard Visual Collaboration ( HPVC ) business, including the Halo Products and Managed Services business, for approximately $89.0 million in cash (the HPVC Acquisition ). In conjunction with the HPVC Acquisition, the Company will also purchase certain additional assets that are owned by HP Financial Services. Any adjustment to the preliminary purchase price allocation as a result of purchasing these additional assets is not expected to be material. The Company has included the financial results of HPVC in the condensed consolidated financial statements from the date of acquisition. Pro forma results of operations for the acquisition have not been presented because the effect of the HPVC Acquisition was not material to the Company s financial results.

The acquisition expands the Company s offerings in the immersive telepresence market and strengthens the Company s leadership position in the UC and telepresence markets by bringing HPVC s installed base of visual collaboration products and technology together with the Company s customer base.

The total preliminary purchase price of $89.0 million was allocated to the net tangible and intangible assets based upon their fair values as of July 27, 2011. The excess of the preliminary purchase price over the net tangible and intangible assets was recorded as goodwill. The Company may adjust the preliminary purchase price allocation after giving consideration to final valuation reports and obtaining more information regarding, among other things, asset valuations, liabilities assumed, and revisions of preliminary estimates.

The following table summarizes the estimated fair values of the assets and liabilities assumed at the acquisition date (in thousands):

| | |
|---|---|
| Tangible assets: | |
| Current assets | $ 5,424 |
| Property, plant and equipment | 2,878 |
| Long-term assets | 1,257 |
| Total tangible assets acquired | 9,559 |
| Liabilities: | |
| Current liabilities | (3,531) |
| Long-term liabilities | (3,569) |
| Total liabilities assumed | (7,100) |
| Fair value of net assets assumed | 2,459 |
| Intangible assets consisting of: | |
| Core and developed technology | 2,000 |
| Customer and partner relationships | 45,400 |
| Trade name | 700 |
| Other | 400 |
| Goodwill | 38,041 |
| Total consideration | $ 89,000 |

Goodwill is not deductible for tax purposes. The goodwill balance is primarily attributable to expected synergies from combining HPVC s immersive telepresence and managed service offerings into the Company s product and service offerings. The fair values of intangible assets were calculated based on the income approach. The customer and partner relationships intangible asset is being amortized over 6 years, and the remaining purchased intangible assets are being amortized over a period of less than one year to 5 years. The acquisition-related costs were expensed as incurred.

**Table of Contents**

**4. GOODWILL AND PURCHASED INTANGIBLES**

The following table presents details of the Company s goodwill by segment, retrospectively adjusted to reflect purchase price allocation adjustments recorded during the three months ended September 30, 2011(in thousands):

| | Americas | EMEA | APAC | Total |
|---|---|---|---|---|
| Balance at December 31, 2010 | $ 276,732 | $ 91,930 | $ 124,443 | $ 493,105 |
| Accordent acquisition | 20,436 | 6,805 | 9,213 | 36,454 |
| HPVC acquisition | 11,412 | 11,314 | 15,315 | 38,041 |
| Foreign currency translation | 0 | 161 | 217 | 378 |
| Impairment of fair value of assets acquired and liabilities assumed | 0 | 0 | 0 | 0 |
| Balance at September 30, 2011 | $ 308,580 | $ 110,210 | $ 149,188 | $ 567,978 |

The following table presents details of the Company s total purchased intangible assets as of September 30, 2011 and December 31, 2010 (in thousands):

| | September 30, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| Purchased Intangible Assets | Gross Value | Accumulated Amortization and Impairment | Net Value | Gross Value | Accumulated Amortization and Impairment | Net Value |
| Core and developed technology | $ 123,478 | $ (103,243) | $ 20,235 | $ 109,178 | $ (94,507) | $ 14,671 |
| Customer and partner relationships | 94,625 | (41,400) | 53,225 | 44,625 | (36,815) | 7,810 |
| Trade name | 11,421 | (7,448) | 3,973 | 10,021 | (6,439) | 3,582 |
| Other | 5,262 | (4,880) | 382 | 4,862 | (4,345) | 517 |
| Total | $ 234,786 | $ (156,971) | $ 77,815 | $ 168,686 | $ (142,106) | $ 26,580 |

For the three and nine months ended September 30, 2011, the Company recorded amortization expense related to purchased intangibles of $3.0 million and $6.1 million, respectively, which is included in Amortization of purchased intangibles in the condensed consolidated statements of operations. For the three and nine months ended September 30, 2010, the Company recorded amortization expense related to purchased intangibles of $1.4 million and $4.3 million, respectively, which is included in Amortization of purchased intangibles in the condensed consolidated statements of operations. The Company recorded approximately $2.8 million and $8.8 million during the three and nine months ended September 30, 2011, respectively, of amortization of purchased intangibles to Cost of product revenues in the condensed consolidated statements of operations. The Company recorded approximately $3.3 million and $10.0 million during the three and nine months ended September 30, 2010, respectively, of amortization of purchased intangibles to Cost of product revenues in the condensed consolidated statements of operations. Amortization of intangibles is not allocated to the Company s segments.

The estimated future amortization expense of purchased intangible assets as of September 30, 2011 is as follows (in thousands):

| Year ending December 31, | Amount |
|---|---|
| Remainder of 2011 | $ 6,494 |
| 2012 | 22,855 |
| 2013 | 13,854 |
| 2014 | 11,779 |
| 2015 | 9,495 |
| Thereafter | 12,420 |
| Total | $ 76,897 |

Purchased intangibles include a purchased trade name intangible 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 earlier under certain circumstances.

**5. RESTRUCTURING COSTS**

The Company recorded $1.3 million and $3.3 million during the three months ended September 30, 2011 and 2010, respectively, and $4.7 million and $6.6 million during the nine months ended September 30, 2011 and 2010, respectively, related to restructuring actions that resulted from the elimination or relocation of various positions as part of restructuring plans approved by management. During the three and nine months ended September 30, 2011, the restructuring actions also included the costs for idle facilities resulting from the consolidation of the Company s Colorado facilities. These actions are generally intended to reallocate resources to more strategic growth areas of the business.

Table of Contents

The following table summarizes the status of the Company s restructuring reserves (in thousands):

| | Total |
|---|---|
| Balance at December 31, 2010 | $ 3,221 |
| Additions to the reserve | 4,785 |
| Cash payments and other usage | (5,798) |
| Balance at September 30, 2011 | $ 2,208 |

**6. BALANCE SHEET DETAILS**

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Raw materials | $ 4,674 | $ 6,405 |
| Work in process | 1,469 | 991 |
| Finished goods | 104,686 | 106,598 |
| | $ 110,829 | $ 113,994 |

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Prepaid expenses | $ 31,368 | $ 21,848 |
| Non-trade receivables | 9,666 | 14,317 |
| Other current assets | 9,258 | 5,719 |
| | $ 50,292 | $ 41,884 |

Deferred revenues consist of the following (in thousands):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **Short-term:** | | |
| Service | $ 129,728 | $ 100,446 |
| Product | 943 | 3,073 |
| License | 1,400 | 1,400 |
| | $ 132,071 | $ 104,919 |
| **Long-term:** | | |
| Service | $ 64,988 | $ 46,394 |

| | | |
|---|---|---|
| Product | 87 | 323 |
| License | 7,525 | 8,575 |
| | $ 72,600 | $ 55,292 |

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Accrued expenses | $ 15,836 | $ 12,751 |
| Accrued co-op expenses | 4,878 | 6,104 |
| Restructuring reserves | 2,408 | 3,262 |
| Warranty obligations | 10,841 | 9,569 |
| Derivative liability | 4,579 | 4,998 |
| Employee stock purchase plan withholding | 5,177 | 7,129 |
| Other accrued liabilities | 9,294 | 10,838 |
| | $ 53,013 | $ 54,651 |

Table of Contents

**7. GUARANTEES**

***Warranty***

The Company provides for the estimated costs of product warranties at the time revenue is recognized. The specific terms and conditions of those warranties vary depending upon the product sold. In the case of hardware manufactured by Polycom, warranties generally start from the delivery date and continue for one to three years depending on the product purchased. Software products generally carry a 90-day warranty from the date of shipment. The Company s liability under warranties on software products is to provide a corrected copy of any portion of the software found not to be in substantial compliance with the agreed upon specifications. Factors that affect the Company s warranty obligation include product failure rates, material usage and service delivery costs incurred in correcting product failures. The Company assesses the adequacy of its recorded warranty liabilities every quarter and makes adjustments to the liability if necessary.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Balance at beginning of period | $ 11,177 | $ 9,672 | $ 9,569 | $ 9,447 |
| Accruals for warranties issued during the period | 5,428 | 5,271 | 17,957 | 14,640 |
| Cost of providing warranty during the period | (5,764) | (4,867) | (16,685) | (14,011) |
| Balance at end of period | $ 10,841 | $ 10,076 | $ 10,841 | $ 10,076 |

***Deferred Maintenance Revenue***

The Company offers maintenance contracts for sale on most of its products which allow for customers to receive service and support in addition to, or subsequent to, the expiration of the contractual product warranty. The Company recognizes the maintenance revenue from these contracts over the life of the service contract.

Deferred maintenance revenue of $129.7 million and $100.4 million is short-term and is included as a component of Deferred revenue as of September 30, 2011 and December 31, 2010, respectively, and $65.0 million and $46.4 million is long-term and is included in Long-term deferred revenue as of September 30, 2011 and December 31, 2010, respectively, on the condensed consolidated balance sheets.

Changes in deferred maintenance revenue for the three and nine months ended September 30, 2011 and 2010 are as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Balance at beginning of period | $ 176,458 | $ 125,532 | $ 146,840 | $ 109,538 |
| Additions to deferred maintenance revenue | 80,157 | 51,903 | 212,275 | 151,139 |
| Amortization of deferred maintenance revenue | (61,899) | (43,640) | (164,399) | (126,882) |
| Balance at end of period | $ 194,716 | $ 133,795 | $ 194,716 | $ 133,795 |

The cost of providing maintenance services for the three and nine months ended September 30, 2011 was $30.5 million and $80.3 million, respectively. The cost of providing maintenance services for the three and nine months ended September 30, 2010 was $24.3 million and $71.4 million, respectively.

***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 minimal.

Table of Contents

*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.

**8. INVESTMENTS AND FAIR VALUE MEASUREMENTS:**

The Company had cash and cash equivalents of $289.0 million and $324.2 million at September 30, 2011 and December 31, 2010, 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 securities, municipal securities and corporate debt securities. At September 30, 2011, 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 and equity securities which are summarized as follows (in thousands):

| | Cost Basis | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Balances at September 30, 2011:** | | | | |
| **Investments Short-term:** | | | | |
| U.S. government securities | $ 121,936 | $ 35 | $ (9) | $ 121,962 |
| State and local governments | 1,033 | 3 | 0 | 1,036 |
| Corporate debt securities | 79,170 | 33 | (20) | 79,183 |
| Total investments short-term | $ 202,139 | $ 71 | $ (29) | $ 202,181 |
| **Investments Long-term:** | | | | |
| U.S. government securities | $ 37,014 | $ 21 | $ (5) | $ 37,030 |
| State and local governments | 0 | 0 | 0 | 0 |
| Corporate debt securities | 11,327 | 6 | (18) | 11,315 |
| Total investments long-term | $ 48,341 | $ 27 | $ (23) | $ 48,345 |
| **Balances at December 31, 2010:** | | | | |
| **Investments Short-term:** | | | | |
| U.S. government securities | $ 101,236 | 60 | $ (5) | $ 101,291 |
| State and local governments | 0 | 0 | 0 | 0 |
| Corporate debt securities | 68,833 | 43 | (13) | 68,863 |
| Total investments short-term | $ 170,069 | $ 103 | $ (18) | $ 170,154 |
| **Investments Long-term:** | | | | |
| U.S. government securities | $ 20,202 | $ 25 | $ (29) | $ 20,199 |
| State and local governments | 529 | 0 | 0 | 529 |
| Corporate debt securities | 20,584 | 22 | (17) | 20,588 |
| Total investments long-term | $ 41,315 | $ 47 | $ (46) | $ 41,316 |

As of September 30, 2011, the Company s total cash and cash equivalents and investments held in the United States totaled $156.2 million with the remaining $383.3 million held by various foreign subsidiaries outside of the United States.

***U.S. Government Securities***

The Company s U.S. government and agency securities are mostly comprised of U.S. government agency instruments, including mortgage-backed securities. They also include direct U.S. Treasury obligations that are guaranteed by the U.S. government. To ensure that the investment portfolio is sufficiently diversified, the Company s investment policy requires that a certain percentage of the Company s portfolio be invested in these types of securities.

***Corporate Debt Securities***

The Company s corporate debt securities are comprised of publicly-traded domestic and foreign corporate debt securities. The Company does not purchase auction rate securities, and cash investments are in instruments that meet high quality credit rating standards, as specified in the Company s investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issuer or type of instrument.

Table of Contents

***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 September 30, 2011 and December 31, 2010 (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 |
| **September 30, 2011:** | | | | | | |
| U.S. government securities | $ 64,280 | $ (15) | $ 0 | $ 0 | $ 64,280 | $ (15) |
| Corporate debt securities | 32,597 | (40) | 0 | 0 | 32,597 | (40) |
| Total investments | $ 96,877 | $ (55) | $ 0 | $ 0 | $ 96,877 | $ (55) |
| **December 31, 2010:** | | | | | | |
| U.S. government securities | $ 47,222 | $ (37) | $ 0 | $ 0 | $ 47,222 | $ (37) |
| Corporate debt securities | 54,615 | (38) | 1,058 | (1) | 55,673 | (39) |
| Total Investments | $ 101,837 | $ (75) | $ 1,058 | $ (1) | $ 102,895 | $ (76) |

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 three and nine months ended September 30, 2011, the Company determined that there were no investments in its portfolio that were other-than temporarily impaired. During the three and nine months ended September 30, 2010, the Company recognized realized losses of approximately $0.2 million and $5.7 million, respectively on its investment portfolio.

***Private Company Investments***

For strategic reasons the Company has made various 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. During the nine months ended September 30, 2011, the Company recorded $0.5 million of impairment charges related to its private company investments in interest and other income (expense), net in the Company s condensed consolidated statements of operations. The Company did not record such impairment charges during the three months ended September 30, 2011 and 2010 and the nine months ended September 30, 2010. The cost of these investments at September 30, 2011 and December 31, 2010 was $2.0 million and $2.5 million, respectively, and is recorded in Other assets in the Company s condensed consolidated balance sheets.

***Fair Value Measurements***

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As the basis for considering such assumptions, a three-tier value 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 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 nine months ended September 30, 2011. The Company does not hold any investments classified as Level 3 as of September 30, 2011 and December 31, 2010.

Table of Contents

As of September 30, 2011, the Company s fixed income available-for-sale securities include U.S. Treasury obligations and other government agency instruments (56%), corporate bonds (27%), commercial paper (15%) and money market funds (2%). Included in available-for-sale securities is approximately $36.8 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 fair value of the Company s marketable securities and foreign currency contracts was determined using the following inputs at September 30, 2011 (in thousands):

| (in thousands)<br>Description | Total | Fair Value Measurements at Reporting Date Using<br>Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
|---|---|---|---|
| Assets: | | | |
| Fixed Income available-for-sale securities (a) | $ 287,311 | $ 6,136 | $ 281,175 |
| Foreign currency forward contracts (b) | $ 7,974 | 0 | $ 7,974 |
| Liabilities: | | | |
| Foreign currency forward contracts (c) | $ 4,579 | 0 | $ 4,579 |

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

**9. 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 and Israeli Shekels.

The following table summarizes the Company s notional position by currency, and approximate U.S. dollar equivalent, at September 30, 2011 of the outstanding non-designated hedges (foreign currency and dollar amounts 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 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Euro | 32,076 | $ | 43,292 | Buy | 5,946 | $ | 8,052 | Buy |
| Euro | 44,790 | $ | 61,792 | Sell | 20,203 | $ | 27,358 | Sell |
| British Pound | 7,466 | $ | 11,734 | Buy | 4,959 | $ | 7,778 | Buy |
| British Pound | 9,737 | $ | 15,538 | Sell | 7,187 | $ | 11,273 | Sell |
| Israeli Shekel | 26,854 | $ | 7,344 | Buy | 13,531 | $ | 3,696 | Buy |
| Israeli Shekel | 31,485 | $ | 8,463 | Sell | 0 | | 0 | 0 |

**Table of Contents**

The following table shows the effect of the Company s non-designated hedges in the condensed consolidated statements of operations for the nine months ended September 30, 2011 and 2010 (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 September 30, 2011 | September 30, 2010 |
|---|---|---|---|
| Foreign exchange contracts | Interest and other income (expense), net | $ 1,887 | $ 609 |

***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 Euro, British Pound and Israeli Shekel. 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 goods sold 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 tables show the effect of the Company s derivative instruments designated as cash flow hedges in the condensed consolidated statements of operations for the nine months ended September 30, 2011 and 2010 (in thousands):

| Nine Months Ended September 30, 2011: | Gain or (Loss) Recognized in OCI Effective Portion | Location of Gain or (Loss) Reclassified from OCI into Income Effective Portion | Gain or (Loss) Reclassified from OCI into Income Effective Portion | Location of Gain or (Loss) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing | Gain or (Loss) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing (a) |
|---|---|---|---|---|---|
| Foreign exchange contracts | $ (579) | Product revenues | $ (7,230) | Interest and other income (expense), net | $ (291) |
| | | Cost of revenues | 362 | | |
| | | Sales and marketing | 2,725 | | |
| | | Research and development | 643 | | |
| | | General and administrative | 371 | | |
| Total | $ (579) | | $ (3,129) | | $ (291) |
| **Nine Months Ended September 30, 2010:** | | | | | |
| Foreign exchange contracts | $ 2,917 | Product revenues | $ 5,189 | Interest and other income (expense), net | $ 135 |

| | | | |
|---|---|---|---|
| Cost of revenues | | (248) | |
| Sales and marketing | | (1,540) | |
| Research and development | | 210 | |
| General and administrative | | (49) | |
| Total | $ 2,917 | $ 3,562 | $ 135 |

Table of Contents

(a) For the nine months ended September 30, 2011 and 2010, the loss and gain recorded, respectively, was related to the excluded time value portion of the hedge. No loss or gain was recorded for the ineffective portion for the nine months ended September 30, 2011 and 2010.

As of September 30, 2011, the Company estimated all values reported in cumulative other comprehensive income (loss) will be reclassified to income within the next twelve months.

The following table summarizes the derivative-related activity in cumulative other comprehensive income (loss) (in thousands and not tax effected):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Beginning Balance | $ (3,443) | $ 5,718 | $ (574) | $ (99) |
| Net gains/losses reclassified into earnings for revenue hedges | 932 | (2,446) | 7,230 | (5,189) |
| Net gains/losses reclassified into earnings for expense hedges | (647) | 1,090 | (4,101) | 1,626 |
| Net change in fair value of cash flow hedges | 5,134 | (5,107) | (579) | 2,917 |
| Ending Balance | $ 1,976 | $ (745) | $ 1,976 | $ (745) |

In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the related hedge gains and losses on the cash flow hedge would be immediately reclassified to interest and other income (expense), net on the consolidated statements of operations. For the three and nine months ended September 30, 2011 and 2010, there were no such gains or losses.

The following table summarizes the Company s notional position by currency, and approximate U.S. dollar equivalent, at September 30, 2011 of the outstanding cash flow hedges, all of which are carried at fair value on the condensed consolidated balance sheets (foreign currency and dollar amounts 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 |
| Euro | 4,557 | $ 6,227 | Buy | 17,757 | $ 24,529 | Buy |
| Euro | 9,328 | $ 12,920 | Sell | 65,989 | $ 91,101 | Sell |
| British Pound | 4,395 | $ 6,898 | Buy | 17,044 | $ 26,853 | Buy |
| British Pound | 3,852 | $ 6,055 | Sell | 18,108 | $ 28,519 | Sell |
| Israeli Shekel | 13,873 | $ 3,717 | Buy | 58,177 | $ 16,454 | Buy |

The estimates of fair value are based on applicable and commonly quoted prices and prevailing financial market information as of September 30, 2011 and 2010. See Note 8 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.

**Table of Contents**

The following table shows the Company s derivative instruments measured at gross fair value as reflected in the condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010 (in thousands):

| | Fair Value of Derivatives Designated as Hedge Instruments | | Fair Value of Derivatives Not Designated as Hedge Instruments | |
|---|---|---|---|---|
| | September 30, 2011 | December 31, 2010 | September 30, 2011 | December 31, 2010 |
| Derivative assets (a): | | | | |
| Foreign exchange contracts | $ 5,631 | $ 3,025 | $ 2,344 | $ 2,632 |
| Derivative liabilities (b): | | | | |
| Foreign exchange contracts | $ 3,814 | $ 3,503 | $ 765 | $ 1,495 |

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

**10. STOCKHOLDER S 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. During the three and nine months ended September 30, 2011, the Company purchased 0.9 million shares of common stock in the open market for cash of $20.0 million. During the three and nine months ended September 30, 2010, the Company purchased 1.3 million shares and 4.4 million shares, as adjusted for the stock split, respectively, of common stock in the open market for cash of $20.0 million and $60.0 million, respectively. The purchase price for the shares of the Company s stock repurchased is recorded as a reduction to stockholders equity. As of September 30, 2011, the Company was authorized to purchase up to an additional $98.0 million of shares in the open market under the current share repurchase plan.

***Comprehensive Income***

The components of comprehensive income, net of tax, are as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Net income | $ 23,720 | $ 17,268 | $ 86,241 | $ 35,283 |
| Change in unrealized gain (loss) on investments | (93) | (137) | (39) | 5,824 |
| Change in cumulative translation adjustment | (2,993) | 4,466 | 1,040 | (2,615) |
| Change in unrealized gain (loss) on hedging securities | 5,419 | (6,463) | 2,550 | (646) |
| Comprehensive income | $ 26,053 | $ 15,134 | $ 89,792 | $ 37,846 |

**11. STOCK BASED EMPLOYEE BENEFIT PLANS**

***Stock-Based Compensation Expense***

The following table summarizes stock-based compensation expense recorded for the three and nine months ended September 30, 2011 and 2010 and its allocation within the condensed consolidated statements of operations (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Cost of sales product | $ 767 | $ 610 | $ 2,017 | $ 1,968 |
| Cost of sales service | 1,349 | 849 | 2,975 | 2,988 |
| Stock-based compensation expense included in cost of sales | 2,116 | 1,459 | 4,992 | 4,956 |
| Sales and marketing | 7,966 | 7,095 | 19,191 | 20,658 |
| Research and development | 4,876 | 2,339 | 10,991 | 7,788 |
| General and administrative | 5,486 | 3,904 | 11,409 | 9,008 |
| Stock-based compensation expense included in operating expenses | 18,328 | 13,338 | 41,591 | 37,454 |
| Stock-based compensation related to employee equity awards and employee stock purchases | 20,444 | 14,797 | 46,583 | 42,410 |
| Tax benefit | 3,189 | 4,382 | 7,460 | 10,221 |
| Stock-based compensation expense related to employee equity awards and employee stock purchases, net of tax | $ 17,255 | $ 10,415 | $ 39,123 | $ 32,189 |

Table of Contents

No stock-based compensation was capitalized during the three and nine months ended September 30, 2011 and 2010 due to these amounts being immaterial.

***Valuation Assumption***

The Company did not grant any stock options during the three and nine months ended September 30, 2011 and 2010. During the third quarter of 2011, the Company changed its employee stock purchase plan from a 6-month offering and purchase period into a 24-month offering period with four 6-month purchase periods. The weighted-average estimated fair value of employee stock purchase rights granted pursuant to the 2005 Employee Stock Purchase Plan during the three and nine months ended September 30, 2011 was $8.49 per share and $7.87 per share and during the three and nine months ended September 30, 2010 was $3.89 per share and $3.42 per share, as adjusted for the stock split, respectively. 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 attribution approach using the following weighted-average assumptions:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Expected volatility | 40.60% | 38.57% | 39.65% | 38.23% |
| Risk-free interest rate | 0.26% | 0.20% | 0.24% | 0.19% |
| Expected dividends | 0.00% | 0.00% | 0.00% | 0.00% |
| Expected life (yrs) | 1.18 | 0.50 | 1.04 | 0.50 |

As a result of the change to the employee stock purchase plan during the third quarter of 2011 into a 24-month offering period with four 6-month purchase periods, the Company changed its expected volatility assumption from implied volatility to blended volatility (50% historical volatility / 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 the resultant future expectation of dividend payouts.

As the stock-based compensation expense recognized in the condensed consolidated statement of operations for the three and nine months ended September 30, 2011 and 2010 is based on awards ultimately expected to vest, such amounts have been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

***Employee Stock Purchase Plan***

During the nine months ended September 30, 2011 and 2010, 1,143,614 and 1,312,290 shares were purchased under the employee stock purchase plan at average per share prices of $15.19 and $9.66, as adjusted for the stock split, respectively. At September 30, 2011, there were 10,031,106 shares available to be issued under the employee stock purchase plan, including an additional 7.0 million shares, as adjusted for the stock split, which were approved by the Company s stockholders during the second quarter of 2011. The stock-based compensation cost recognized in connection with the employee stock purchase plan for the three and nine months ended September 30, 2011 was $3.4 million and $6.3 million, respectively, and $1.3 million and $3.3 million for the three and nine months ended September 30, 2010, respectively.

***Performance Shares and Restricted Stock Units***

The Compensation Committee of the Board of Directors may also grant performance shares and restricted stock units under the 2011 Equity Incentive Plan to officers, to non-employee directors and to certain other employees as a component of the Company s broad-based equity compensation program. Prior to May 2011, the Compensation Committee granted performance shares and restricted stock units under the 2004 Equity Incentive Plan. Performance shares represent a commitment by the Company to deliver shares of Polycom common stock at a future point in time, subject to the fulfillment by the Company of pre-defined performance criteria. Such awards will be earned only if performance goals over the performance periods established by or under the direction of the Compensation Committee are met. The number of performance shares subject to vesting is determined at the end of a given performance period. Generally, if the performance criteria are deemed achieved, performance shares will vest from one to three years from the anniversary of the grant date. Restricted stock units are time-based awards that generally vest over a period of one to three years from the date of grant.

Table of Contents

Commencing in 2011, the Company granted performance shares which contain a market condition based on Total Shareholder Return (TSR) and which measure the Company s relative performance against the NASDAQ Composite Index. Such performance shares will be delivered in common stock at the end of the vesting period based on the Company s actual performance compared to the target performance criteria and may equal from zero percent (0%) to one hundred fifty percent (150%) of the target award. Prior to 2011, the Company granted performance shares which contain a market condition based on Total Shareholder Return (TSR) and which measure the Company s relative performance against the Russell 2000 Index. Such performance shares will be delivered in common stock at the end of the vesting period based on the Company s actual performance compared to the target performance criteria and may equal from zero percent (0%) to two hundred percent (200%) of the target award. The fair value of a performance share with a market condition is estimated on the date of award, using a Monte Carlo simulation model to estimate the total return ranking of the Company s stock among the NASDAQ Composite Index or Russell 2000 Index companies, as applicable, over each performance period. During the nine months ended September 30, 2011 and 2010, the Company granted target performance shares of 961,784 and 1,033,902, as adjusted for the stock split, respectively. The 2011 grants are evenly divided over three annual performance periods commencing with calendar 2011, at a weighted average fair value of $27.47 per share, as adjusted for the stock split. The 2010 grants are evenly divided over three annual performance periods commencing with calendar 2010, at a weighted average fair value of $15.41 per share, as adjusted for the stock split. Stock-based compensation expense for these performance shares is recognized using the graded vesting method over the three-year service period.

The Company also granted restricted stock units during the nine months ended September 30, 2011 and 2010. The fair value of restricted stock units is based on the closing market price of the Company s common stock on the date of award. The awards generally vest between one to three years in equal annual installments on each anniversary of the date of grant and will be delivered in common stock at the end of each vesting period. Stock-based compensation expense for these restricted stock units is recognized using the graded vesting method. During the nine months ended September 30, 2011 and 2010, the Company granted 2,260,434 and 3,161,778 restricted stock units at a weighted average fair value of $24.34 and $12.66 per share, as adjusted for the stock split, respectively.

Non-employee directors currently receive annual awards of restricted stock units. The restricted stock units vest quarterly over one year from the date of grant. The fair value of these awards is the fair market value of the Company s common stock on the date of grant. Stock-based compensation expense for these awards is generally amortized over six months from the date of grant due to voluntary termination provisions contained in the underlying agreements.

During the nine months ended September 30, 2010, the Company granted 189,000 performance shares, at a weighted average fair value of $11.37 per share, as adjusted for the stock split, which contain a performance condition based on attaining pre-defined gross margin dollar goals for calendar 2010. These performance shares, as adjusted for actual forfeitures, have been fully vested and issued during the first quarter of 2011. The Company did not issue similar performance shares for any periods during 2011.

**12. COMPUTATION OF NET INCOME PER SHARE**

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the additional dilution from potential issuances of common stock, such as stock issuable pursuant to the exercise of outstanding stock options. Potentially dilutive shares are excluded from the computation of diluted net income per share when their effect is antidilutive.

A reconciliation of the numerator and denominator of basic and diluted net income per share, as adjusted for the stock split, is provided as follows (in thousands except per share amounts):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Numerator basic and diluted net income per share: | | | | |
| Net income | $ 23,720 | $ 17,268 | $ 86,241 | $ 35,283 |
| Denominator basic and diluted net income per share: | | | | |
| Weighted average shares used to compute basic net income per share | 177,249 | 170,626 | 176,325 | 170,090 |
| Effect of dilutive common stock equivalents: | | | | |
| Stock options to purchase common stock | 875 | 1,338 | 1,051 | 1,682 |
| Restricted common stock awards and performance shares | 4,395 | 4,004 | 4,440 | 3,956 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total shares used in calculation of diluted net income per share | | 182,519 | | 175,968 | | 181,816 | | 175,728 |
| Basic net income per share | $ | 0.13 | $ | 0.10 | $ | 0.49 | $ | 0.21 |
| Diluted net income per share | $ | 0.13 | $ | 0.10 | $ | 0.47 | $ | 0.20 |

Table of Contents

Diluted shares outstanding include the dilutive effect of in-the-money options which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future services that the Company has not yet recognized, and the amount of tax benefit that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares. For the three and nine months ended September 30, 2010, approximately 1.5 million and 1.7 million shares, as adjusted for the stock split, respectively, relating to potentially dilutive securities, primarily from stock options, were excluded from the denominator in the computation of diluted net income per share because their inclusion would be anti-dilutive. There were no such shares being excluded for the three and nine months ended September 30, 2011.

**13. BUSINESS SEGMENT INFORMATION**

Polycom is a global leader in unified communications ( UC ) solutions and the leading provider of telepresence, video, voice, and network infrastructure solutions based on open standards. The Company conducts its business globally and is managed geographically in three segments: (1) Americas, which consists of North, Central and Latin Americas, (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. The revenue and operating results for the prior period have been revised to conform to the current period presentation.

***Segment Revenue and Profit***

Segment revenues are attributed to a theater based on the ordering location of the customer. A significant portion of each segment s expenses arise from shared services and infrastructure that Polycom has historically allocated to the segments in order to realize economies of scale and to use resources efficiently. These expenses include information technology services, facilities and other infrastructure costs.

***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 below. For internal reporting purposes and determination of segment contribution margins, geographic segment revenues may differ slightly from actual geographic revenues due to internal revenue allocations between the Company s segments.

Asset data, with the exception of gross accounts receivable, is not reviewed by management at the segment level.

Financial information for each reportable geographical segment as of September 30, 2011 and December 31, 2010 and for the three and nine months ended September 30, 2011 and 2010, based on the Company s internal management reporting system and as utilized by the Company s Chief Operating Decision Maker ( CODM ), is as follows (in thousands) :

| | Americas | EMEA | APAC | Total |
|---|---|---|---|---|
| **For the three months ended September 30, 2011:** | | | | |
| Revenue | $ 196,946 | $ 91,925 | $ 90,146 | $ 379,017 |
| *% of total revenue* | *52%* | *24%* | *24%* | *100%* |
| Contribution margin | 81,524 | 37,923 | 41,522 | 160,969 |
| *% of segment revenue* | *41%* | *41%* | *46%* | *42%* |
| **For the three months ended September 30, 2010:** | | | | |
| Revenue | $ 169,375 | $ 74,714 | $ 63,980 | $ 308,069 |
| *% of total revenue* | *55%* | *24%* | *21%* | *100%* |
| Contribution margin | 68,665 | 27,565 | 29,100 | 125,330 |
| *% of segment revenue* | *41%* | *37%* | *45%* | *41%* |
| **For the nine months ended September 30, 2011:** | | | | |
| Revenue | $ 562,304 | $ 266,893 | $ 259,594 | $ 1,088,791 |
| *% of total revenue* | *52%* | *24%* | *24%* | *100%* |
| Contribution margin | 234,151 | 106,145 | 125,384 | 465,680 |
| *% of segment revenue* | *42%* | *40%* | *48%* | *43%* |

| | | | | |
|---|---|---|---|---|
| **For the nine months ended September 30, 2010:** | | | | |
| Revenue | $ 475,451 | $ 216,352 | $ 187,055 | $ 878,858 |
| *% of total revenue* | *54%* | *25%* | *21%* | *100%* |
| Contribution margin | 186,983 | 75,473 | 86,297 | 348,753 |
| *% of segment revenue* | *39%* | *35%* | *46%* | *40%* |
| **As of September 30, 2011: Gross accounts receivable** | *114,860* | *68,238* | *59,699* | *242,797* |
| *% of total gross accounts receivable* | *47%* | *28%* | *25%* | *100%* |
| **As of December 31, 2010: Gross accounts receivable** | 83,350 | 60,622 | 44,920 | 188,892 |
| *% of total gross accounts receivable* | *44%* | *32%* | *24%* | *100%* |

20

Table of Contents

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 margin. 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 expense, general and administrative costs, such as legal and accounting, stock-based compensation costs, acquisition-related costs, amortization of purchased intangible assets, restructuring costs and interest and other income (expense), net.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Segment contribution margin | $ 160,969 | $ 125,330 | $ 465,680 | $ 348,753 |
| Corporate and unallocated costs | (100,096) | (79,246) | (286,379) | (229,537) |
| Stock-based compensation | (20,444) | (14,797) | (46,583) | (42,410) |
| Effect of stock-based compensation cost on warranty expense | (137) | (113) | (365) | (346) |
| Acquisition-related costs | (3,578) | 0 | (7,924) | 0 |
| Amortization of purchased intangibles | (5,763) | (4,727) | (14,943) | (14,263) |
| Restructuring costs | (1,264) | (3,301) | (4,739) | (6,574) |
| Litigation reserves and payments | 0 | 0 | 0 | (1,235) |
| Interest and other income (expense), net | (1,298) | 293 | (3,305) | (7,931) |
| Income before provision for income taxes | $ 28,389 | $ 23,439 | $ 101,442 | $ 46,457 |

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Gross accounts receivable | $ 242,797 | $ 188,892 |
| Returns and related reserves | (34,965) | (32,541) |
| Allowance for doubtful accounts | (1,864) | (1,844) |
| Total trade receivables, net | $ 205,968 | $ 154,507 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Net Revenues: | | | | |
| UC group systems | $ 246,629 | $ 200,584 | $ 711,509 | $ 574,514 |
| UC personal devices | 70,979 | 61,556 | 202,523 | 175,737 |
| Network infrastructure | 61,409 | 45,929 | 174,759 | 128,607 |
| Total | $ 379,017 | $ 308,069 | $ 1,088,791 | $ 878,858 |

Table of Contents

During the three and nine months ended September 30, 2011 and 2010, one channel partner from the Americas segment accounted for more than 10% of the Company s revenues.

**14. INCOME TAXES**

The Company s effective tax rate was 16.4% and 26.3% for the three months ended September 30, 2011 and 2010, respectively, and 15.0% and 24.1% for the nine months ended September 30, 2011 and 2010, respectively. The effective tax rate differs from the United States federal statutory rate of 35% due primarily to favorable tax rates associated with certain earnings from the Company s operations in lower-tax jurisdictions throughout the world, partially offset by non-deductible stock compensation expense.

In the three months ended September 30, 2011, the Company recorded discrete items with a net tax impact of $0.8 million primarily due to an adjustment to tax reserves for a state income tax audit, additional taxes accrued due to the filing of the Company s 2010 US tax return in the quarter, offset by a tax benefit related to deductible acquisition costs during the quarter and other miscellaneous discrete items. In the nine months ended September 30, 2011, the Company recorded a discrete benefit of $6.6 million, primarily due to a reserve release associated with the resolution of a multi-year tax audit.

In the three and nine months ended September 30, 2010, the Company recorded discrete items with a net tax benefit of $2.2 million and $2.7 million, respectively. These amounts included net tax benefits associated with adjustments to prior year foreign income tax accruals, settlement of tax audit matters, reversal of tax reserves due to statute expirations and other miscellaneous discrete items.

As of September 30, 2011, the amount of gross unrecognized tax benefits was $31.6 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 September 30, 2011, the Company had accrued a net $2.2 million payable for interest and penalties. The Company anticipates that except for $3.6 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.

Table of Contents

**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, SHOULD, 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 ANTICIPATED PRODUCTS, GEOGRAPHIC REVENUE LEVELS AND MIX, PRODUCT REVENUES, GROSS MARGINS, OPERATING COSTS AND EXPENSES INVENTORY LEVELS, FLUCTUATIONS IN CURRENCY EXCHANGE RATES, CHANGES IN INCOME TAX PROVISIONS, AND THE IMPACT OF ACQUISITIONS, INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY 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, 2010.*

***Overview***

We are a global leader in unified communications ( UC ) solutions and the leading provider of telepresence, video, voice and infrastructure solutions based on open standards. With our UC solutions, people all over the world can collaborate face-to-face without being in the same physical location. Individuals and teams can connect, solve and create through a highly visual experience from their desktops, meeting rooms, classrooms, and while mobile. Ultimately, we believe this allows people to make better decisions faster and to increase their productivity while saving time and money and being environmentally responsible.

Important drivers for the adoption of Polycom UC solutions include:

- the growth of video as a preferred method of communication,
- increasing presence of video on the desktop,
- virtualization and the move to the cloud,
- adoption of UC by small and medium businesses,
- mobile devices playing a more important role in UC,
- the growing number of teleworkers,
- the demand for UC solutions for business-to-business communications and the move of consumer applications into the business space, and
- the continued commitment by organizations and individuals to reduce their carbon footprint and expenses by choosing remote connectivity over travel.

Visual communication provides natural and effective collaboration experiences among individuals and teams separated by distance. With the increasing availability of high-speed wired and wireless networks, migration to Internet Protocol ( IP ) communications, and advances in video technologies that include high definition ( HD ) and immersive telepresence, many enterprises, educational institutions and government organizations are seeking systems that enable real-time and on-demand video communication. Increasingly pervasive trends including globalization of the enterprise, distributed and remote workforces, outsourcing, rising travel costs, and sustainability requirements are driving organizations to implement tools that enable better decision-making, faster time-to-market, and greater returns on investment.

We have developed a 2011 strategic plan aimed at capitalizing on our unique position and capturing the emerging network effect of UC adoption by enterprise, public sector, service providers, small and medium businesses ( SMBs ), and, ultimately, the connected home. Central to our 2011 plan are five strategic pillars: (1) enabling cloud-based UC solutions, (2) mobile UC solutions, (3) leveraging our UC ecosystem partners, (4) the delivery and propagation of our Polycom® RealPresence (formerly UC Intelligent Core ) network infrastructure products, and (5) continued delivery of solutions through our UC innovation engine. These strategic pillars will drive our key initiatives and future spending as we focus on capturing opportunities within emerging and high-growth markets including mobile, SMBs, cloud-based delivery, and the consumer markets.

Revenues for the three and nine months ended September 30, 2011 were $379.0 million and $1.1 billion, respectively, as compared to $308.1 million and $878.9 million for the three and nine months ended September 30, 2010, respectively. Revenues increased across all three of our segments in 2011 as compared to 2010 which were primarily driven by investments made in our go-to-market capabilities. Our Americas, EMEA and APAC segment revenues accounted for 52%, 24% and 24%, respectively, of our revenues in both the three and nine months ended September 30, 2011. For the three months ended September 30, 2011, our Americas, EMEA and APAC segment revenues increased by 16%, 23% and 41% respectively, as compared to the same period in 2010. For the nine months ended September 30, 2011, our Americas, EMEA and APAC segment revenues increased by 18%, 23% and 39% respectively, as compared to the same period in 2010. See Note 13 of Notes to Condensed Consolidated Financial Statements for further information on our segments, including a summary of our segment revenues, segment contribution margin 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 nine months ended September 30, 2011 and 2010.

Operating margins remained flat in the three months ended September 30, 2011 as compared to the same period in 2010 and increased by 4 percentage points in the nine months ended September 30, 2011 as compared to the same period in 2010. The operating margin in the three months ended September 30, 2011 was relatively flat as compared to the same period in 2010 as increases in operating expenses were offset by increased gross margins as a percentage of revenue. The increase in the operating expenses as a percentage of revenue during the three months ended September 30, 2011 as compared to the same period in 2010 was due to increases in research and development costs and acquisition-related costs, offset by a decrease in sales and marketing expenses as a percentage of revenue. The increase in the operating margin during the nine-month period was primarily due to operating expenses decreasing and gross margin increasing as a percentage of revenue in 2011 as compared to 2010. The decrease in operating expenses as a percentage of revenue resulted primarily from decreases in sales and marketing expense as a percentage of revenue due to increased productivity of our sales force and lower restructuring costs. These decreases were offset by increases in research and development expense and acquisition-related costs as a percentage of revenue. The increases in gross margins for both the three months and nine months ended September 30, 2011 as compared to the same periods in 2010 primarily resulted from lower cost of service as a percentage of service revenue due to improvements in product quality and lower outside services cost. Cost of product revenues as a percentage of product revenues remained relatively flat for both the three and nine months ended September 30, 2011 as compared to the same periods in 2010.

While we had strong year-over-year revenue growth during the three months ended September 30, 2011, our growth was slower than expected, which we believe was due in part to mixed macroeconomic factors as well as the need for improvement in our go-to-market execution in North America. In addition, we continued to invest in strategic areas of the business during the quarter, which adversely impacted our operating margins.

Table of Contents

During the nine months ended September 30, 2011, we generated approximately $177.6 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 $35.2 million net decrease in our total cash and cash equivalents.

On July 27, 2011, we acquired the assets of Hewlett-Packard Visual Collaboration ( HPVC ) business, including the Halo Products and Managed Services business, for approximately $89.0 million in cash (the HPVC Acquisition ). We have included the financial results of HPVC in our condensed consolidated financial statements from the date of acquisition.

In June 2011, our Board of Directors approved a two-for-one stock split of our outstanding shares of common stock effected in the form of a 100% stock dividend ( the stock split ). The stock split entitled each stockholder of record at the close of business on June 15, 2011 to receive one additional share of common stock for every one share of common stock owned as of that date, payable by our transfer agent on July 1, 2011. The par value of our common stock was maintained at the pre-split amount of $0.0005 per share. All share and per share data have been restated as if the stock split had occurred as of the earliest period presented. As adjusted for the stock split, our weighted average shares outstanding and earnings per share for the past five years are as follows:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (in thousands, except per share data) | | | | |
| Basic net income per share | $ 0.40 | $ 0.30 | $ 0.44 | $ 0.35 | $ 0.41 |
| Diluted net income per share | $ 0.39 | $ 0.29 | $ 0.43 | $ 0.33 | $ 0.40 |
| Weighted average shares outstanding for basic net income per share | 170,662 | 167,999 | 171,231 | 181,756 | 176,839 |
| Weighted average shares outstanding for diluted net income per share | 176,370 | 171,118 | 174,491 | 188,781 | 180,747 |

***Results of Operations for the Three and Nine Months Ended September 30, 2011 and 2010***

The following table sets forth, as a percentage of revenues, condensed consolidated statements of operations data for the periods indicated.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Revenues: | | | | |
| Product revenues | 80% | 83% | 82% | 83% |
| Service revenues | 20% | 17% | 18% | 17% |
| Total revenues | 100% | 100% | 100% | 100% |
| Cost of revenues: | | | | |
| Cost of product revenues as a % of product revenues | 40% | 39% | 40% | 40% |
| Cost of service revenues as a % of service revenues | 41% | 48% | 41% | 49% |
| Total cost of revenues | 40% | 41% | 40% | 42% |
| Gross profit | 60% | 59% | 60% | 58% |
| Operating expenses: | | | | |
| Sales and marketing | 30% | 32% | 29% | 32% |
| Research and development | 14% | 12% | 13% | 12% |
| General and administrative | 6% | 6% | 6% | 6% |

| | | | | |
|---|---|---|---|---|
| Amortization of purchased intangibles | 1% | 0% | 1% | 1% |
| Restructuring costs | 0% | 1% | 0% | 1% |
| Acquisition-related costs | 1% | 0% | 1% | 0% |
| Litigation reserves and payments | 0% | 0% | 0% | 0% |
| Total operating expenses | 52% | 51% | 50% | 52% |
| Operating income | 8% | 8% | 10% | 6% |
| Interest and other income (expense), net | (1)% | 0% | 0% | (1)% |
| Income before provision for income taxes | 7% | 8% | 10% | 5% |
| Provision for income taxes | 1% | 2% | 2% | 1% |
| Net income | 6% | 6% | 8% | 4% |

**Table of Contents**

*Revenues*

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

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **$ in thousands** | **September 30, 2011** | **September 30, 2010** | **Increase** | **September 30, 2011** | **September 30, 2010** | **Increase** |
| Americas | $ 196,946 | $ 169,375 | 16% | $ 562,304 | $ 475,451 | 18% |
| *% of revenues* | *52%* | *55%* | | *52%* | *54%* | |
| EMEA | $ 91,925 | $ 74,714 | 23% | $ 266,893 | $ 216,352 | 23% |
| *% of revenues* | *24%* | *24%* | | *24%* | *25%* | |
| APAC | $ 90,146 | $ 63,980 | 41% | $ 259,594 | $ 187,055 | 39% |
| *% of revenues* | *24%* | *21%* | | *24%* | *21%* | |
| Total revenues | $ 379,017 | $ 308,069 | 23% | $ 1,088,791 | $ 878,858 | 24% |

Total revenues for the three months ended September 30, 2011 were $379.0 million, an increase of $70.9 million, or 23%, over the same period in 2010. Total revenues for the nine months ended September 30, 2011 were $1.1 billion, an increase of $209.9 million, or 24% over the same period in 2010. The increases in revenues in both the three and nine month periods were driven by increases in both product and services revenues. Product revenues increased by $46.9 million, or 18%, and services revenue increased by $24.0 million, or 46%, in the three months ended September 30, 2011 as compared with the same period in 2010. Product revenues increased by $161.0 million, or 22%, and services revenue increased by $48.9 million, or 33%, in the nine months ended September 30, 2011 as compared with the same period in 2010.

Revenues increased across all segments in both the three and nine month periods ended September 30, 2011 as compared to the same periods in 2010, most predominantly in the APAC region, primarily as a result of investments made in our go-to-market capabilities. This resulted in increased sales volumes while average selling prices remained relatively stable. These increases were driven by increased revenues across many of our key geographic markets, including the United States, China, Brazil, and Russia for both the three and nine months ended September 30, 2011. India, Australia and Germany also contributed to the increase during the nine months ended September 30, 2011 and to a lesser extent, during the three months ended September 30, 2011. In the three and nine months ended September 30, 2011 and 2010, one channel partner in our Americas segment accounted for more than 10% of our total net revenues. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated net revenues or segment net 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 material adverse impact during the transition period.

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:

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **$ in thousands** | **September 30, 2011** | **September 30, 2010** | **Increase** | **September 30, 2011** | **September 30, 2010** | **Increase** |
| UC group systems | $ 246,629 | $ 200,584 | 23% | $ 711,509 | $ 574,514 | 24% |
| UC personal devices | $ 70,979 | $ 61,556 | 15% | $ 202,523 | $ 175,737 | 15% |
| Network infrastructure | $ 61,409 | $ 45,929 | 34% | $ 174,759 | $ 128,607 | 36% |
| Total revenues | $ 379,017 | $ 308,069 | 23% | $ 1,088,791 | $ 878,858 | 24% |

UC group systems include all immersive telepresence, group video and group voice systems products and the related service elements. The increase in revenues from UC group systems in the three months ended September 30, 2011 over the same period in 2010 was primarily driven by increases in revenues from group video products and related services and to a lesser extent, increases in revenues from our immersive telepresence offerings partially due to the acquisition of HPVC in the third quarter of 2011 and group voice products and related services. The increase in revenues from UC group systems in the nine months ended September 30, 2011 over the same period in 2010 was primarily driven by increases in revenues from group video products and related services and to a lesser extent, increases in revenues from our group voice and immersive telepresence products and related services partially due to the acquisition of HPVC in the third quarter of 2011.

UC personal devices include desktop video devices, desktop voice and wireless LAN products and the related service elements. The increases in revenues from UC personal devices in both the three and nine months ended September 30, 2011 over the same periods in 2010 were primarily due to increased sales of our desktop voice products in all our geographic segments, driven by the continued adoption of VoIP technologies, partially offset by decreases in revenues from wireless and desktop video products.

**Table of Contents**

Network infrastructure includes our network infrastructure hardware and software products and the related service elements. The increases in network infrastructure revenues in both the three and nine months ended September 30, 2011 over the same periods in 2010 were driven by increased revenues in all of our geographic segments.

*Cost of Revenues and Gross Margins*

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **$ in thousands** | **September 30, 2011** | **September 30, 2010** | **Increase/ (Decrease)** | **September 30, 2011** | **September 30, 2010** | **Increase/ (Decrease)** |
| Product Cost of Revenues | $ 121,271 | $ 99,913 | 21% | $ 352,922 | $ 291,463 | 21% |
| % of Product Revenues | 40% | 39% | 1 pt | 40% | 40% | |
| Product Gross Margins | 60% | 61% | (1)pt | 60% | 60% | |
| Service Cost of Revenues | $ 31,164 | $ 25,371 | 23% | $ 82,540 | $ 74,390 | 11% |
| % of Service Revenues | 41% | 48% | (7)pts | 41% | 49% | (8)pts |
| Service Gross Margins | 59% | 52% | 7 pts | 59% | 51% | 8 pts |
| Total Cost of Revenues | $ 152,435 | $ 125,284 | 22% | $ 435,462 | $ 365,853 | 19% |
| % of Total Revenues | 40% | 41% | (1)pt | 40% | 42% | (2)pts |
| Total Gross Margins | 60% | 59% | 1 pt | 60% | 58% | 2 pts |

*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 $0.8 million and $0.6 million for the three months ended September 30, 2011 and 2010, respectively, and of $2.0 million for both the nine months ended September 30, 2011 and 2010. 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.

Overall, product gross margins as a percentage of revenues for both the three and nine months ended September 30, 2011 remained relatively flat as compared to the same periods in 2010. As overhead absorption costs and other cost of sales such as freight, warranty and royalties are not allocated to our segments, product gross margins slightly decreased in our APAC segment but remained relatively flat in our Americas and EMEA segments for the three months ended September 30, 2011. The decrease in APAC segment gross margins for the three months ended September 30, 2011 was primarily due to product mix, timing and size of deals as compared to the same period in 2010. Product gross margins for the nine months ended September 30, 2011 remained flat in all of our geographic segments as compared to the same period in 2010.

*Cost of Service Revenues and Services 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 services gross margins included $1.3 million and $0.9 million in charges for stock-based compensation in the three months ended September 30, 2011 and 2010, respectively, and $3.0 million in charges for stock-based compensation in both the nine months ended September 30, 2011 and 2010.

Overall, services gross margins increased by 7 and 8 percentage points in the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. Services gross margin increased in all of our geographic segments primarily as a result of increased revenues from our maintenance services and decreased costs as a percentage of revenue associated with the delivery of service due to higher productivity of services employees, improvements in product quality and lower outside services.

*Total Cost of Revenues and Gross Margins*

Overall, total gross margins as a percentage of revenues for the three and nine months ended September 30, 2011 increased 1 percentage point and 2 percentage points, respectively, compared to the same periods in 2010. The increase in total gross margins was driven primarily by increases in our services gross margins as discussed under Cost of Service Revenues and Services Gross Margins.

We expect gross margins to increase slightly in the near term as compared to the three months ended September 30, 2011. 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 revenue 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; attach rates for new services as well as maintenance renewal rates; changes in technology; changes in product mix; variability of stock-based compensation costs; the potential of 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 offering; increasing costs for freight and repair costs; our ability to achieve greater efficiencies in the installations of our immersive telepresence products; manufacturing efficiencies of subcontractors; manufacturing and purchase price variances; warranty and recall costs and the timing of sales. In addition, we may experience higher prices on commodity components that are included in our products. In order to control expenses in any given quarter, we have taken actions to reduce costs such as imposing travel restrictions, postponing salary increases, requesting employees to use paid time off or implementing other cost control measures. Such actions may not be able to be implemented in a timely manner or may not be successful in completely offsetting the impact of lower than anticipated revenues.

Table of Contents

*Sales and Marketing Expenses*

| $ in thousands | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Increase/ (Decrease) | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 | Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| Expenses | $ 113,108 | $ 97,214 | 16% | $ 320,717 | $ 282,491 | 14% |
| % of Revenues | 30% | 32% | (2)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 of $8.0 million and $7.1 million for the three months ended September 30, 2011 and 2010, respectively, and of $19.2 million and $20.7 million for the nine months ended September 30, 2011 and 2010, respectively.

Sales and marketing expenses increased in absolute dollars by 16% but decreased as a percentage of revenues by 2 percentage points for the three months ended September 30, 2011 as compared to the same period in 2010. The increase in sales and marketing expenses in absolute dollars was due primarily to increased headcount and compensation-related costs, including commissions. Sales and marketing headcount increased by 20% as of September 30, 2011 as compared to the same period in 2010. Travel and entertainment expenses, depreciation and facilities allocations also increased as a result of headcount increases, as well as due to the expansion of our demonstration center capabilities in support of our go-to-market strategy.

Sales and marketing expenses increased in absolute dollars by 14% but decreased as a percentage of revenues by 3 percentage points for the nine months ended September 30, 2011 as compared to the same period in 2010. The increase in sales and marketing expenses in absolute dollars was due primarily to increased headcount and compensation-related costs, including commissions. Sales and marketing headcount increased by 20% as of September 30, 2011 as compared to the same period in 2010. Depreciation and facilities allocations also increased as a result of headcount increases, as well as due to the expansion of our demonstration center capabilities in support of our go-to-market strategy. Sales and marketing expenses also increased as a result of increased spending on marketing programs. These increases were partially offset by lower stock-based compensation expenses in the nine months ended September 30, 2011 as compared to the same period in 2010.

The decreases in sales and marketing expenses as a percentage of revenue for the three and nine months were due to increased productivity of our sales force.

We expect our sales and marketing expenses to continue to increase in absolute dollars in the near term as a result of incurring costs to recruit and hire new sales and marketing personnel and expenses will also likely increase in the future as revenues increase. We will also make additional investments in sales and marketing in order to extend our market reach and grow our business in support of our key strategic initiatives surrounding increasing our strategic partnerships as part of our UC ecosystem and developing and marketing cloud-based and mobile UC solutions, our Polycom RealPresence network infrastructure products and other innovations that are expected throughout 2011.

Forecasting sales and marketing expenses as a percentage of revenue 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 and also depending upon the timing of trade shows. Sales and marketing expenses may also fluctuate due to increased international expenses and the impact of changes in foreign currency exchange rates. In order to control expenses in any given quarter, we have taken actions to reduce costs such as imposing travel restrictions, postponing salary increases, requesting employees to use paid time off or implementing other cost control measures. Such actions may not be able to be implemented in a timely manner or may not be successful in completely offsetting the impact of lower than anticipated revenues.

Table of Contents

*Research and Development Expenses*

| $ in thousands | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Increase | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 | Increase |
|---|---|---|---|---|---|---|
| Expenses | $ 53,589 | $ 38,278 | 40% | $ 147,116 | $ 108,423 | 36% |
| % of Revenues | 14% | 12% | 2pts | 13% | 12% | 1 pt |

Research and development expenses 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 of $4.9 million and $2.3 million for the three months ended September 30, 2011 and 2010, respectively, and of $11.0 million and $7.8 million for the nine months ended September 30, 2011 and 2010, respectively.

Research and development expenses increased by $15.3 million or 40%, for the three months ended September 30, 2011 over the same period in 2010 and increased by $38.7 million or 36% for the nine months ended September 30, 2011. Research and development expenses as a percentage of revenues also increased by 2 percentage points and 1 percentage point for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, respectively. The increases for both the three and nine months ended September 30, 2011 as compared to the same periods in 2010 are primarily due to increased headcount, increased stock-based compensation charges and increased development expense in support of our key strategic initiatives, including our strategic partnerships as part of our UC ecosystem, cloud-based and mobile UC solutions and Polycom RealPresence network infrastructure products. Research and development headcount increased by 43% as of September 30, 2011 as compared to 2010.

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, such as the new Scalable Video Coding standard to address the device, application and networks requirements of mobile, SMB and consumer networks. We are also investing more heavily in research and development as a result of increased business opportunities with strategic partners, mobile and service provider customers as a result of our key strategic initiatives in these areas. We are also investing in key vertical markets such as the U.S. federal government. We expect that research and development expenses in absolute dollars will increase 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 revenue is highly dependent on expected revenue levels and could vary significantly depending on actual revenues achieved in any given quarter. In order to control expenses in any given quarter, we have taken actions to reduce costs such as imposing travel restrictions, postponing salary increases, requesting employees to use paid time off or implementing other cost control measures. Such actions may not be able to be implemented in a timely manner or may not be successful in completely offsetting the impact of lower than anticipated revenues.

*General and Administrative Expenses*

| $ in thousands | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Increase | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 | Increase |
|---|---|---|---|---|---|---|
| Expenses | $ 22,347 | $ 19,440 | 15% | $ 61,993 | $ 55,627 | 11% |
| % of Revenues | 6% | 6% | | 6% | 6% | |

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 of $5.5 million and $3.9 million for the three months ended September 30, 2011 and 2010, respectively, and of $11.4 million and $ 9.0 million for the nine months ended September 30, 2011 and 2010, respectively.

General and administrative expenses increased in absolute dollars but remained relatively constant as a percentage of revenues in both the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The primary drivers of the increases in absolute dollars for both the three and nine months ended September 30, 2011 as compared to the same periods in 2010 were related to increased headcount of 23% in 2011 and stock-based compensation expenses, partially offset by lower severance, legal and other costs associated with the CEO transition that occurred in May 2010. The remaining increase in general and administrative expenses during the nine months ended September 30, 2011 in absolute dollars was, to a lesser extent, due to increases in other outside services, insurance and headcount-related expenses.

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.

**Table of Contents**

We expect that our general and administrative expenses will increase in absolute dollar amounts in the near term but could fluctuate as we make investments in enhancements to our financial and operating systems and other costs related to supporting a larger company, increased costs associated with regulatory requirements, and our continued investments in international regions. General and administrative expenses may also increase as a result of additional investments required to support our key strategic initiatives. In order to control expenses in any given quarter, we have taken actions to reduce costs such as imposing travel restrictions, postponing salary increases, requesting employees to use paid time off or implementing other cost control measures. Such actions may not be able to be implemented in a timely manner or may not be successful in completely offsetting the impact of lower than anticipated revenues.

*Acquisition-related Costs*

We expense all acquisition-related costs as incurred. These costs generally include outside services for legal and accounting fees and other integration services. We have spent and will continue to spend significant resources identifying and acquiring businesses. During the three and nine months ended September 30, 2011, we recorded $3.6 million and $7.9 million of acquisition-related costs, respectively. These costs were due in part to our acquisition of Accordent Technologies, Inc. ( Accordent ) on March 21, 2011 and our acquisition of HPVC which closed on July 27, 2011. No such activities occurred in the three and nine months ended September 30, 2010. We expect to incur additional acquisition-related costs in the fourth quarter of 2011 as a result of the ViVu, Inc. ( ViVu ) acquisition, which closed on October 14, 2011, and ongoing integration of our HPVC acquisition.

*Amortization of Purchased Intangibles*

In the three months ended September 30, 2011 and 2010, we recorded $3.0 million and $1.4 million, respectively, and in the nine months ended September 30, 2011 and 2010, we recorded $6.1 million and $4.3 million, respectively, for amortization of purchased intangibles related to our acquisitions. The increase in both the three and nine months ended September 30, 2011 as compared to the respective year ago periods is primarily due to the amortization of purchased intangibles acquired from Accordent in the first quarter of 2011 and from HPVC in the third quarter of 2011. Purchased intangible assets are being amortized to expense over their estimated useful lives, which range from several months to eight years.

*Restructuring*

During the three months ended September 30, 2011 and 2010, we recorded $1.3 million and $3.3 million, respectively, and during the nine months ended September 30, 2011 and 2010, we recorded $4.7 million and $ 6.6 million, respectively, related to restructuring actions that resulted from the elimination or relocation of various positions as part of restructuring plans approved by management. Specifically in the third quarter of 2011, management completed the consolidation of our Colorado facilities and began transitioning certain engineering and product management and related support functions in our Andover, Massachusetts facility to other locations in order to gain efficiencies. Restructuring charges relating to these actions primarily include costs for idle facilities and to a lesser extent, severance and relocation costs for impacted individuals. We expect to incur additional costs related to these actions through the first quarter of 2012 as we complete these transitions. These actions are generally intended to reallocate resources to more strategic growth areas of the business. See Note 5 of Notes to Condensed Consolidated Financial Statements for further information on restructuring costs.

In October 2011, management committed to a restructuring plan designed to better align and allocate resources to more strategic growth areas of the business. These actions are primarily related to the reorganization of our global go-to-market and other organizations. The restructuring plan will result in the elimination of approximately 5% of our global workforce with the majority of the reductions taking effect in the fourth quarter of 2011, enabling the creation of new positions that better align with our strategic initiatives. We currently expect to record restructuring charges and make cash expenditures between approximately $10.0 million and $11.0 million through the second quarter of 2012 resulting from this action, primarily related to severance and other employee termination benefits.

In addition, we have approved plans to consolidate and eliminate certain facilities in order to gain efficiencies, including the combination of our headquarters and San Jose, California operations into one location. As a result, we expect to record approximately $12.0 million in additional restructuring charges related to idle facilities upon vacating these facilities in the second quarter of 2012.

*Litigation Reserves and Payments*

During the nine months ended September 30, 2010, we recorded a liability totaling $1.2 million related to the settlement of a legal matter during the period. There were no such expenses in the three months ended September 30, 2011 and 2010 and the nine months ended September 30, 2011.

*Interest and Other Income (Expense), Net*

Interest and other income (expense), net, consists primarily of interest earned on our cash, cash equivalents and investments less bank charges resulting from the use of our bank accounts, gains and losses on investments, non-income related taxes and license fees and foreign exchange related gains and losses. Interest and other income (expense), net was a net expense of $1.3 million and a net gain of $0.3 million during the three months ended September 30, 2011 and 2010, respectively. The decrease was primarily due to increased non-income related taxes and license fees and net foreign exchange related losses recognized in the third quarter of 2011 as opposed to net foreign exchange related gains recognized in the same period in 2010. These unfavorable factors were slightly offset by realized gains recognized on investments in the three months ended September 30, 2011 as opposed to realized losses recognized in the same period in 2010, lower loss on disposal of assets and higher interest income in 2011 as compared to the same period in 2010.

Table of Contents

Interest and other income (expense), net was a net expense of $3.3 million and $7.9 million during the nine months ended September 30, 2011 and 2010, respectively. The decrease in net expenses was primarily due to net losses recognized in the nine months ended September 30, 2010 totaling $6.5 million related to investments that we considered to be other-than temporarily impaired as compared to $0.5 million of impairment charges related to our investments in private companies recorded during the same period in 2011. We also wrote off a $0.9 million non-trade receivable during the nine months ended September 30, 2010 which we did not have during the same period in 2011. In addition, during the nine months ended September 30, 2011, we recognized a net foreign exchange related gain in 2011 as opposed to a net foreign exchange related loss in 2010. These positive impacts were slightly offset by an increase in non-income related taxes and license fees and a decrease in interest income during the nine months ended September 30, 2011 as compared to the same period in 2010. See Note 8 of Notes to Condensed Consolidated Financial Statements for further discussion on the accounting for our investments.

Interest and other income (expense), net, will fluctuate due to changes in interest rates and returns on our cash and investments, any future impairment of investments, foreign currency rate fluctuations on un-hedged exposures, fluctuations in costs associated with our hedging program and timing of non-income related taxes and license fees. The cash balance could also decrease depending upon the amount of cash used in any future acquisitions, our stock repurchase activity and other factors, which would also impact our interest income.

*Provision for Income Taxes*

Our effective tax rate was 16.4% and 26.3% for the three months ended September 30, 2011 and 2010, respectively, and 15.0% and 24.1% for the nine months ended September 30, 2011 and 2010, respectively. The effective tax rate differs from the United States federal statutory rate of 35% due primarily to favorable tax rates associated with certain earnings from our operations in lower-tax jurisdictions throughout the world, partially offset by the portion of stock compensation that is non-deductible for U.S. tax purposes.

In the three months ended September 30, 2011, we recorded discrete items with a net tax impact of $0.8 million primarily due to an adjustment to tax reserves for a state income tax audit, additional taxes accrued due to the filing of the Company s 2010 US tax return in the quarter, offset by a tax benefit related to deductible acquisition costs during the quarter and other miscellaneous discrete items. In the nine months ended September 30, 2011, we recorded a discrete benefit of $6.6 million, primarily due to a reserve release associated with the resolution of a multi-year tax audit.

In the three and nine months ended September 30, 2010, we recorded discrete items with a net tax benefit of $2.2 million and $2.7 million, respectively. These amounts included net tax benefits associated with adjustments to prior year foreign income tax accruals, settlement of tax audit matters, reversal of tax reserves due to statute expirations and other miscellaneous discrete items.

As of September 30, 2011, the amount of gross unrecognized tax benefits was $31.6 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 September 30, 2011, we had accrued a net $2.2 million payable for interest and penalties. We anticipate that except for $3.6 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 also subject to the periodic examination of our income tax returns by the Internal Revenue Service ( IRS ) and other tax authorities, and in some cases we have received additional tax assessments. 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 outcome of the examinations is inherently uncertain.

***Segment Information***

A description of our products and services, as well as selected financial data, for each segment can be found in Note 13 to Condensed Consolidated Financial Statements. Future changes to our organizational structure or business may result in changes to the reportable segments disclosed. The discussions below include the results of each of our segments for the three and nine months ended September 30, 2011 and 2010.

**Table of Contents**

The revenue and operating results for the prior period have been restated to conform to the current period presentation. 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, acquisition-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 three and nine month periods ended September 30, 2011 and 2010 (in thousands):

| | Americas | EMEA | APAC | Total |
|---|---|---|---|---|
| For the three months ended September 30, 2011: | | | | |
| Revenue | $ 196,946 | $ 91,925 | $ 90,146 | $ 379,017 |
| *% of total revenue* | *52%* | *24%* | *24%* | *100%* |
| Contribution margin | 81,524 | 37,923 | 41,522 | 160,969 |
| *% of segment revenue* | *41%* | *41%* | *46%* | *42%* |
| For the three months ended September 30, 2010: | | | | |
| Revenue | $ 169,375 | $ 74,714 | $ 63,980 | $ 308,069 |
| *% of total revenue* | *55%* | *24%* | *21%* | *100%* |
| Contribution margin | 68,665 | 27,565 | 29,100 | 125,330 |
| *% of segment revenue* | *41%* | *37%* | *45%* | *41%* |
| For the nine months ended September 30, 2011: | | | | |
| Revenue | $ 562,304 | $ 266,893 | $ 259,594 | $ 1,088,791 |
| *% of total revenue* | *52%* | *24%* | *24%* | *100%* |
| Contribution margin | 234,151 | 106,145 | 125,384 | 465,680 |
| *% of segment revenue* | *42%* | *40%* | *48%* | *43%* |
| For the nine months ended September 30, 2010: | | | | |
| Revenue | $ 475,451 | $ 216,352 | $ 187,055 | $ 878,858 |
| *% of total revenue* | *54%* | *25%* | *21%* | *100%* |
| Contribution margin | 186,983 | 75,473 | 86,297 | 348,753 |
| *% of segment revenue* | *39%* | *35%* | *46%* | *40%* |

*Americas*

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **$ in thousands** | **September 30, 2011** | **September 30, 2010** | **Increase** | **September 30, 2011** | **September 30, 2010** | **Increase** |
| Revenue | $ 196,946 | $ 169,375 | 16% | $ 562,304 | $ 475,451 | 18% |
| Contribution margin | $ 81,524 | $ 68,665 | 19% | $ 234,151 | $ 186,983 | 25% |
| Contribution margin as % of Americas revenues | 41% | 41% | | 42% | 39% | 3pts |

Our Americas segment revenues increased by 16% and 18% in the three and nine months ended September 30, 2011, respectively, as compared with the same periods in 2010, particularly in the United States and Brazil. The increases in these countries were partially offset by decreases in Mexico for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, respectively. The increase in revenues was driven by increases in our UC group systems, UC personal devices and network infrastructure revenues. Increases in UC group systems revenues in the Americas for the three months ended September 30, 2011 as compared to the same period in 2010 was primarily driven by increased group video revenues, increased immersive telepresence revenues and to a lesser extent, increased group voice revenues. Increases in UC group systems revenues in the Americas for the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily driven by increased group video revenues, increased group voice revenues and to a lesser extent, increased immersive telepresence revenues. Increases in UC personal devices revenues were primarily driven by increased desktop voice sales resulting from continued adoption of VoIP technologies, partially offset by decreased wireless product revenues and to a lesser extent, decreased desktop video revenues. Network infrastructure revenues growth was as a result of increased sales of our Polycom RealPresence network infrastructure products and services.

In the three months ended September 30, 2011 and 2010, one channel partner in our Americas segment accounted for 29% and 25% of our Americas net revenues, respectively. In the nine months ended September 30, 2011 and 2010, one channel partner in our Americas segment accounted for 27% and 24% of our Americas net 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 net revenues or segment net 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 material adverse impact during the transition period.

Table of Contents

Contribution margin as a percentage of Americas segment revenues remained flat for the three months ended September 30, 2011 and increased by 3 percentage points for the nine months ended September 30, 2011 as compared to the same periods in 2010. The increase in contribution margin as a percentage of revenue for the nine months period was primarily due to increased gross margins and a decrease in direct sales and marketing expenses as a percentage of revenue. The increase in gross margins was driven primarily by a mix shift toward higher margin products in our Polycom RealPresence network infrastructure product offerings, a decrease in cost of services and to a lesser extent, higher services revenue as a result of the HPVC acquisition in the third quarter of 2011. Direct sales and marketing expenses increased in absolute dollars but decreased as a percentage of revenue. The increases in absolute dollars were due to increased headcount and higher spending on marketing programs. The decrease as a percentage of revenue was due to increased productivity of our sales force.

*EMEA*

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **$ in thousands** | **September 30, 2011** | **September 30, 2010** | **Increase** | **September 30, 2011** | **September 30, 2010** | **Increase** |
| Revenue | $ 91,925 | $ 74,714 | 23% | $ 266,893 | $ 216,352 | 23% |
| Contribution margin | $ 37,923 | $ 27,565 | 38% | $ 106,145 | $ 75,473 | 41% |
| Contribution margin as % of EMEA revenues | 41% | 37% | 4pts | 40% | 35% | 5pts |

Our EMEA segment revenues increased by 23% in both the three and nine months ended September 30, 2011 as compared with the same periods in 2010 due to broad-based growth throughout most of EMEA, being led by growth primarily in Russia, Germany and Nordic countries, partially offset by a decrease in Spain. The increases in revenues were driven by increases in our UC group systems, network infrastructure, and UC personal devices revenues. The increase in UC group systems revenues for the three months ended September 30, 2011 as compared to the same period in 2010 was primarily driven by increased group video revenues, immersive telepresence revenues and to a lesser extent, group voice revenues. The increase in UC group systems revenues for the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily driven by increased group video revenues, group voice revenues and to a lesser extent, immersive telepresence revenues. Network infrastructure revenues growth was a result of increased sales of the products and services that comprise our network infrastructure product offerings. Increases in UC personal devices revenues were primarily driven by increased desktop voice sales resulting from continued adoption of VoIP technologies and an increase in wireless product revenues, while desktop video revenues remained relatively flat for both periods.

In the three months ended September 30, 2011 and 2010, one channel partner in our EMEA segment accounted for 11% and 13% of our EMEA net revenues, respectively. In the nine months ended September 30, 2011 and 2010, one channel partner in our EMEA segment accounted for 11% and 12% of our EMEA net 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 net revenues or segment net 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 material adverse impact during the transition period.

Contribution margin as a percentage of EMEA segment revenues increased by 4 and 5 percentage points for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The contribution margin as a percentage of revenue increased primarily due to lower direct sales and marketing expenses as a percentage of revenues and to a lesser extent, an increase in gross margin. The decrease in direct sales and marketing expenses as a percentage of revenue was due primarily to increased productivity of our sales force and a decrease in marketing program investments. The increase in gross margins was driven primarily to a decrease in cost of services as a percentage of revenue while product margin as a percentage of revenue remained relatively flat.

*APAC*

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **$ in thousands** | **September 30, 2011** | **September 30, 2011** | **Increase** | **September 30, 2011** | **September 30, 2010** | **Increase** |
| Revenue | $ 90,146 | $ 63,980 | 41% | $ 259,594 | $ 187,055 | 39% |
| Contribution margin | $ 41,522 | $ 29,100 | 43% | $ 125,384 | $ 86,297 | 45% |
| Contribution margin as % of APAC revenues | 46% | 45% | 1pt | 48% | 46% | 2pts |

Table of Contents

Our APAC segment revenues increased by 41% and 39% in the three and nine months ended September 30, 2011, respectively, as compared with the same periods in 2010 primarily due to investments made in our go-to-market capabilities. Revenues from China, Australia and India contributed to the strong growth in APAC. The increase in APAC revenues were driven by increases in our UC group systems, network infrastructure, and to a lesser extent, UC personal devices revenues. Increases in UC group systems revenues in APAC was primarily driven by increased group video revenues, and to a lesser extent, increased immersive telepresence revenues and group voice revenues. Network infrastructure revenues growth was a result of increased sales of the products and services that comprise our network infrastructure product offerings. Increases in UC personal devices revenues were primarily driven by increased desktop voice sales resulting from continued adoption of VoIP technologies, partially offset by a decrease in wireless revenues for the three months ended September 30, 2011 and a decrease in desktop video revenues for the nine months ended September 30, 2011 as compared to the same periods in 2010.

In the three months ended September 30, 2011 and 2010, two channel partners in our APAC segment, in aggregate, accounted for 36% and 31% of our APAC net revenues, respectively. In the nine months ended September 30, 2011 and 2010, two channel partners in our APAC segment, in aggregate, accounted for 34% and 28% of our APAC net 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 net revenues or segment net 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 material adverse impact during the transition period.

Contribution margin as a percentage of APAC segment revenues increased 1 and 2 percentage points in the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The contribution margin as a percentage of revenue increased during the three months ended September 30, 2011 primarily due to decreased direct sales and marketing expenses as a percentage of revenues, partially offset by decreased gross margins. The contribution margin as a percentage of revenue increased during the nine months ended September 30, 2011 primarily due to decreased direct sales and marketing expenses as a percentage of revenues and increased gross margins. The decreases in direct sales and marketing expenses as a percentage of revenues for both the three and nine months ended September 30, 2011 were due to spending mix and investments focused in lower cost areas. The decrease in gross margins during the three months ended September 30, 2011 was primarily related to increased product cost of sales due to product mix, timing and size of deals. The increase in gross margins during the nine months ended September 30, 2011 was driven primarily by a decrease in cost of services as a percentage of revenue due to higher productivity of services employees, improvements in product quality and lower outside services while product gross margins remained relatively flat.

### *Liquidity and Capital Resources*

As of September 30, 2011, our principal sources of liquidity included cash and cash equivalents of $289.0 million, short-term investments of $202.2 million and long-term investments of $48.3 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 8 of Notes to our Condensed Consolidated Financial Statements for further information on our short-term and long-term investments. We also have outstanding letters of credit totaling approximately $2.4 million, the majority of which are in place to satisfy certain of our facility lease requirements.

Our total cash and cash equivalents and investments held in the United States totaled $156.2 million as of September 30, 2011, and the remaining $383.3 million was held by various foreign subsidiaries outside of the United States.

If we would 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.

We generated cash from operating activities totaling $177.6 million in the nine months ended September 30, 2011, compared to $101.7 million in the comparable period of 2010. The increase in cash provided from operating activities for the nine months ended September 30, 2011 as compared to the same period in 2010 was due primarily to increased net income after adjustment of non-cash expenses, a decrease in inventories for the nine months ended September 30, 2011 as opposed to an increase during the same period in 2010, a lower increase in prepaid expenses and other assets, a higher increase in taxes payable and a lower increase in deferred tax assets during the nine months ended September 30, 2011 as compared to the same period in 2010. Partially offsetting these positive effects were a higher increase in trade receivables and lower increases in accounts payable and other accrued liabilities.

The total net change in cash and cash equivalents for the nine months ended September 30, 2011 was a decrease of $35.2 million. The primary sources of cash were $177.6 million from operating activities, $40.5 million associated with the exercise of stock options and purchases under the employee stock purchase plan and $13.3 million in excess tax benefits from stock-based compensation. The primary uses of cash during this period were $139.0 million for the acquisitions of Accordent and HPVC, net of cash acquired, $45.4 million for purchases of property and equipment, $43.1 million for purchases of our common stock and $39.1 million for purchases of investments, net of sales and maturities. The positive cash from operating activities was primarily the result of net income, adjusted for non-cash expenses and other items (such as depreciation, amortization, inventory write-downs for excess and obsolescence, impairment of private company investments and non-cash stock-based compensation), and increases in other accrued liabilities, taxes payable and accounts payable and a decrease in inventories. Partially offsetting the positive effect of these items were increases in trade receivables, prepaid expenses and other assets and deferred tax assets.

Our days sales outstanding ( DSO ) metric was 49 days at September 30, 2011 and 44 days at September 30, 2010. The increase in DSO is due in part to our third quarter 2011 revenue linearity, increased international revenue and a resulting increase in international receivables, which typically have longer payment terms. We expect international revenues to become an increasing portion of our total revenues which, as a result, could continue to impact our DSO. We expect that DSO will remain in the 40 to 50 day range but 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 5.5 turns at September 30, 2011 as compared to 4.7 turns at September 30, 2010 due to higher cost of sales resulting from increased revenues while inventory remained flat. We believe inventory turns will fluctuate depending on our ability to reduce lead times, as well as changes in product mix and a greater mix of ocean freight versus air freight to reduce freight costs. Our inventory turns may also decrease in the future as a result of the flexibility required to respond to the increased demands of our growing business.

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 and operating expenses denominated in the Euro and British Pound as well as operating expenses denominated in Israeli Shekels. 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 revenue or operating expense, 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 has approved plans to purchase shares of our common stock in the open market. During both the three and nine months ended September 30, 2011, we purchased 0.9 million shares of our common stock in the open market for cash of $20.0 million. During the three and nine months ended September 30, 2010, we purchased approximately 1.3 million shares and 4.4 million shares, as adjusted for the stock split, respectively, of common stock in the open market for cash of $20.0 million and $60.0 million, respectively. As of September 30, 2011, we are authorized to purchase up to an additional $98.0 million under our current share repurchase plan. We continue to closely monitor our repurchase program, and as a result, our stock repurchase activity could vary from period to period. See Note 10 of Notes to our Condensed Consolidated Financial Statements for a discussion of the accounting for our common stock repurchases and the related reduction to retained earnings included in stockholder s equity in our condensed consolidated balance sheets.

At September 30, 2011, we had open purchase orders related to our contract manufacturers and other contractual obligations of approximately $215.0 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.

Table of Contents

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 $2.4 million, the majority of which are to secure the leases on some of our offices.

The table set forth below shows, as of September 30, 2011, the future minimum lease payments due under our current lease obligations. As of September 30, 2011, we no longer have any sublease income. 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 September 30, 2011 are as follows (in thousands):

| | Net Minimum Lease Payments | Projected Annual Operating Costs | Other Long-Term Liabilities | Purchase Commitments |
|---|---|---|---|---|
| Remainder of 2011 | $ 5,870 | $ 1,027 | $ | $ 163,056 |
| 2012 | 23,334 | 4,109 | 1,144 | 50,230 |
| 2013 | 21,417 | 3,087 | 845 | 1,697 |
| 2014 | 24,625 | 2,449 | 1,421 | 7 |
| 2015 | 20,960 | 1,852 | 1,099 | |
| Thereafter | 84,933 | 4,189 | 8,477 | |
| Total payments | $ 181,139 | $ 16,713 | $ 12,986 | $ 214,990 |

As discussed in Note 14 of the Notes to Condensed Consolidated Financial Statements, at September 30, 2011, we have unrecognized tax benefits, including related interest, totaling $33.8 million, $4.3 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. In addition, payments we make for income taxes may increase during 2011 as our available net operating losses and research and development tax credits are depleted. We believe that our available cash, cash equivalents and investments will be sufficient to meet our operating expenses and capital requirements for the next 12 months based on our current business plans. However, we may require or desire additional funds to support our operating expenses and capital requirements or for other purposes, such as acquisitions, and may seek to raise such additional funds through public or private equity financing, debt financing 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 September 30, 2011, 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 Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our process used to develop estimates, including those related to product returns, accounts receivable, inventories, investments, intangible assets, income taxes, warranty obligations, restructuring, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. These estimates and judgments are reviewed by management on an ongoing basis and by the Audit Committee at the end of each quarter prior to the public release of our financial results.

Our significant accounting policies were described in Note 1 to our audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. With the exception of those discussed below, there have been no significant changes to these policies or recent accounting pronouncements or changes in accounting pronouncements that are of potential significance to us during the three and nine months ended September 30, 2011.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Condensed Consolidated Financial Statements.

Table of Contents

***Recent Accounting Pronouncements***

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income that will become effective for us beginning January 1, 2012, with earlier adoption permitted. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. We are currently assessing the potential impact on the adoption of this guidance on our financial statements.

In September 2011, the FASB issued authoritative guidance on testing goodwill for impairment that will become effective for us beginning January 1, 2012, with earlier adoption permitted if we have not yet performed our 2011 annual impairment test or issued our financial statements. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard applies to both public and private entities. We are currently assessing the potential impact on the adoption of this guidance on our financial statements.

***Revenue Recognition and Product Returns***

We recognize revenue when persuasive evidence of an arrangement exists, title and risk of loss have transferred, product payment is not contingent upon performance of installation or service obligations, the price is fixed or determinable, and collectability is reasonably assured. In instances where final acceptance of the product or service is specified by the customer, revenue is deferred until all acceptance criteria have been met. We generally recognize service revenues ratably over the service periods of one to five years or upon the completion of installation or professional services.

Some of our products are integrated with software that is essential to the functionality of the equipment. Additionally, we provide unspecified software upgrades and enhancements related to most of these products through maintenance contracts.

When a sale involves multiple deliverables, such as sales of products that include services, the multiple deliverables are evaluated to determine the unit of accounting, and the entire fee from the arrangement is allocated to each unit of accounting based on the relative selling price of each deliverable. When applying the relative selling price method, we determine the selling price for each deliverable using VSOE of selling price, if it exists, or TPE of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, we use our best estimate of selling price for that deliverable. Revenue allocated to each element is then recognized when the other revenue recognition criteria are met for each element.

***Channel Partner Programs and Incentives***

We record estimated reductions to revenues for channel partner programs and incentive offerings including special pricing agreements, promotions and other volume-based incentives. If market conditions were to decline or competition were to increase further, we may take future actions to increase channel partner incentive offerings, possibly resulting in an incremental reduction of revenues at the time the incentive is offered. We accrue for co-op marketing funds as a marketing expense if we receive an identifiable benefit in exchange and can reasonably estimate the fair value of the identifiable benefit received; otherwise, it is recorded as a reduction to revenues.

***Warranty***

We provide for the estimated cost of product warranties at the time revenue is recognized. Our warranty obligation is affected by estimated product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from our estimates, revision of the estimated warranty liability would be required.

***Allowance for Doubtful Accounts***

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We review our allowance for doubtful accounts quarterly by assessing individual accounts receivable over a specific aging and amount, and all other balances on a pooled basis based on historical collection experience. If the financial condition of our customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Delinquent account balances are written off after management has determined that the likelihood of collection is not probable.

***Excess and Obsolete Inventory***

We record write-downs for excess and obsolete inventory equal to the difference between the cost of inventory and the estimated fair value based upon assumptions about future product life-cycles, product demand and market conditions. If actual product life cycles, product demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration of or increase in that newly established cost basis.

Table of Contents

***Stock-based Compensation Expense***

Our share-based compensation programs consist of grants of share-based awards to employees and non-employee directors, including stock options, restricted stock, restricted stock units and performance shares, as well as our employee stock purchase plan. We measure and recognize compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. The estimated fair value of these awards, including the effect of estimated forfeitures, is recognized as expense over the requisite service period, which is generally the vesting period. The fair values of stock option awards and shares purchased under the employee stock purchase plan are estimated at the grant date using the Black-Scholes option valuation model. The fair value of restricted stock units is based on the market value of our common stock on the date of grant. The fair value of performance shares is based on the market price of our stock on the date of grant and assumes that the performance criteria will be met and the target payout level will be achieved. Compensation cost is adjusted for subsequent changes in the probable outcome of performance-related conditions until the award vests. The fair value of a performance share with a market condition is estimated on the date of award, using a Monte Carlo simulation model to estimate the total return ranking of our stock among the Russell 2000 Index companies (for awards granted prior to 2011) and NASDAQ Composite Index companies (for awards granted in 2011) over each performance period. Changes in the underlying factors and assumptions utilized may result in significant variability in the stock-based compensation costs we record, which makes such amounts difficult to accurately predict.

***Deferred and Refundable Taxes***

We estimate our actual current tax expense together with our temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance against these tax assets. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. To the extent we establish a valuation allowance in a period, we must include and expense the allowance within the tax provision in the consolidated statement of operations. As of September 30, 2011, we have $49.7 million in net deferred tax assets. Included in the net deferred tax asset balance is a $3.4 million valuation allowance primarily related to net operating losses generated in Denmark.

We recognize and measure benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained upon audit, including resolution of any related appeals or litigation processes. For tax positions that are more likely than not to be sustained upon audit, the second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement. Significant judgment is required to evaluate uncertain tax positions. We evaluate our uncertain tax positions on a quarterly basis. Our evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change, which could have a material impact on our effective tax rate and operating results.

***Fair Value***

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 us to develop our own assumptions. This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, we measure certain financial assets and liabilities at fair value, including our marketable securities and foreign currency contracts.

Our 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 in active markets include money market funds. Such instruments 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.

As of September 30, 2011, our fixed income available-for-sale securities include U.S. Treasury obligations and other government agency instruments, corporate bonds, commercial paper, municipal securities and money market funds. Included in available-for-sale securities are cash equivalents, which consist of investments with original maturities of three months or less and include money market funds.

Table of Contents

The principal market where we execute our 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 our counterparties are large money center banks and regional banks. Our foreign currency contracts valuation inputs are based on quoted prices and quoted pricing intervals from public data sources (specifically, spot exchange rates, LIBOR rates and credit default rates) and do not involve management judgment. These contracts are typically classified within Level 2 of the fair value hierarchy. For more information on the fair values of our marketable securities and foreign currency contracts see Note 8 of Notes to Condensed Consolidated Financial Statements.

***Business Combinations***

We recognize separately from goodwill the fair value of assets acquired and the liabilities assumed. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments retrospectively to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly and record any adjustments to our preliminary estimates to goodwill provided that we are within the measurement period and we continue to collect information in order to determine their estimated fair values as of the date of acquisition. Subsequent to the measurement period or our final determination of the tax allowance s estimated value, changes to these uncertain tax positions and tax related valuation allowances will affect our provision for income taxes in our consolidated statements of operations.

***Goodwill and Purchased Intangibles***

At September 30, 2011, we had goodwill and purchased intangibles of approximately $568.0 million and $77.8 million, respectively, including the impact of the acquisitions of Accordent and HPVC, which increased goodwill and purchased intangibles by approximately $74.5 million and $66.1 million, respectively, after subsequent purchase price allocation adjustments related to Accordent recorded during the nine months ended September 30, 2011. We assess the impairment of goodwill and other indefinite lived intangibles at least annually unless impairment indicators exist sooner. We assess the impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Some factors we consider important that could trigger an impairment review include the following:

- significant underperformance relative to projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- significant negative industry or economic trends.

If we determine that the carrying value of goodwill and other indefinite lived intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment, we would measure any impairment based on a projected discounted cash flow method using a discount rate determined by us to be commensurate with the risk inherent in our current business model.

We assess our purchased intangibles for impairment on an ongoing basis. The assessment of purchased intangibles impairment is conducted by first estimating the undiscounted expected future cash flows to be generated from the use and eventual disposition of the purchased intangibles and comparing this amount with the carrying value of these assets. If the undiscounted cash flows are less than the carrying amounts, impairment exists, and future cash flows are discounted at an appropriate rate and compared to the carrying amounts of the purchased intangibles to determine the amount of the impairment.

There was no impairment charge recorded in the three and nine months ended September 30, 2011 as no impairment indicators existed. Screening for and assessing whether impairment indicators exist or if events or changes in circumstances have occurred, including market conditions, operating fundamentals, competition and general economic conditions, requires significant judgment. Additionally, changes in the high-technology industry occur frequently and quickly. Therefore, there can be no assurance that a charge to operations will not occur as a result of future goodwill and purchased intangible impairment tests.

Table of Contents

***Private Company Investments***

We periodically make strategic investments in companies whose stock is not currently traded on any stock exchange and for which no quoted price exists. The cost method of accounting is used to account for these investments as we hold a non-material ownership percentage. We review these investments for impairment when events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Examples of events or changes in circumstances that may indicate to us that an impairment exists may be a significant decrease in the market value of the company, poor or deteriorating market conditions in the public and private equity capital markets, significant adverse changes in legal factors or within the business climate the company operates, and current period operating or cash flow losses combined with a history of operating or cash flow losses or projections and forecasts that demonstrate continuing losses associated with the company s future business plans. Impairment indicators identified during the reporting period could result in a significant write-down in the carrying value of the investment if we believe an investment has experienced a decline in value that is other than temporary. During the three months ended September 30, 2011, we did not record any impairment related to these investments. During the nine months ended September 30, 2011, we recorded $0.5 million associated with the impairment of these investments in interest and other income (expense), net in our condensed consolidated statements of operations. At September 30, 2011 and December 31, 2010, our private company investments had a carrying value of $2.0 million and $2.5 million, respectively, and are recorded in Other assets in our condensed consolidated balance sheets.

***Derivative Instruments***

The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For derivative instruments designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative s gain or loss is initially reported as a component of cumulative other comprehensive income (loss) and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. For derivative instruments that are not designated as cash flow hedges, changes in fair value are recognized in earnings in the period of change. We do not hold or issue derivative financial instruments for speculative trading purposes. We enter into derivatives only with counterparties that are among the largest U.S. banks, ranked by assets, in order to minimize our credit risk.

## 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. government obligations and foreign and domestic public corporate debt securities. The valuation of our investment portfolio is subject to uncertainties that are difficult to predict, particularly in light of credit market instability. If the current market conditions deteriorate, or the anticipated recovery in market values does not occur, we may realize losses on the sale of our investments or we may incur further temporary impairment charges requiring us to record additional 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 September 30, 2011. 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 September 30, 2011 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 9/30/2011 | +50 BPS | +100 BPS | +150 BPS |
|---|---|---|---|---|---|---|
| $252,150 | $251,609 | $251,067 | $250,526 | $249,985 | $249,444 | $248,902 |

**Table of Contents**

***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 Euro, British Pound and Israeli Shekel 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 September 30, 2011, we had outstanding forward exchange contracts to sell 12.7 million Euros at 1.46, sell 2.3 million British Pounds at 1.68, and sell 4.6 million Israeli Shekels at 4.14. 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 September 30, 2011, we also had net outstanding foreign exchange contracts to sell 14.3 million Euros at 1.35, sell 2.2 million British Pounds at 1.57 and buy 13.5 million Israeli Shekels at 3.66. 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 and operating expenses denominated in the Euro, British Pound and Israeli Shekels. As of September 30, 2011, we had net outstanding foreign exchange contracts to sell 4.8 million Euros at 1.40, buy 0.5 million British Pounds at 1.55 and buy 13.9 million Israeli Shekels at 3.73. These forward exchange contracts, carried at fair value, typically have maturities of less than 360 days. As of September 30, 2011, we also had net outstanding foreign exchange contracts to sell 48.2 million Euros at 1.38, sell 1.1 million British Pounds at 1.57 and buy 58.2 million Israeli Shekels at 3.54. 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 September 30, 2011, 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 9 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 ensure 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. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management s assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system s objectives will be met.

***Changes in internal control over financial reporting.***

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in claims and legal proceedings that arise in the ordinary course of business. We expect that the number and significance of these matters will increase as our business expands. In particular, we expect 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 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 which, if required, may not be available on terms favorable to us or at all. If management believes that a loss arising from these matters is probable and can be reasonably estimated, we record the amount of 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 our 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 our 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.

### 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.***

Competition that we face in the Americas, EMEA and Asia Pacific for our UC solutions and network infrastructure products is intense and it will likely intensify and could place increased 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, Inc., who acquired Tandberg ASA, previously our largest independent competitor. Our other global competitors include Logitech International S.A., RADVISION Ltd., Avaya, Inc., Huawei Technologies Co., Ltd., and Motorola, Inc. We also compete with other smaller or new industry entrants.

Our competitors continue to develop and introduce new technologies, sometimes proprietary, that represent threats such as Skype, which was recently acquired by Microsoft, one of our strategic partners, and Apple FaceTime. Other offerings such as Cisco Systems CIUS and Avaya s Flare-based ADVD also represent new competitive developments for Polycom. 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 will correspondingly have a negative impact on our revenues, operating margins, and our ability to effectively compete against these companies.

The principal competitive factors in the markets in which we presently compete and may compete in the future include the ability to:

- provide and sell a broad range of UC solutions and services, including mobility and cloud-based solutions, and our ability to bring such products to market on a timely basis;

- appropriately and competitively price our products and solutions;

provide competitive product performance;

introduce new products and solutions;

reduce production and service costs;

provide value-added features and functionality;

successfully integrate our products with, and operate our products on, existing customer platforms;

gain market presence and brand recognition;

extend credit to our partners;

conform to standards; and

successfully address disruptive technology shifts and new business models, such as cloud-based, mobility and consumer solutions.

Our competitive environment also differs by geography. Cisco Systems is our primary global competitor and is active in all theaters and categories in which we compete. In the Asia Pacific region, the competitive landscape also includes China-based competitors such as Huawei Technologies Co., Ltd., ZTE Corporation, and other competitors in the region including Sony Corporation, Zylotech Ltd., ClearOne Communications, Inc., VTEL Products Corp., Emblaze-VCON Ltd. and Grandstream Communications, Inc.

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 characteristics. New product introductions by our current or future competitors, or our delay in bringing new products to market to compete with competitive products, could cause a significant decline in sales or loss of market acceptance of our existing products and future products. We believe that the possible effects from ongoing competition may be a reduction in the prices of our products and our competitors products, the introduction of additional lower priced competitive products or the introduction of new products or product platforms that render our existing products or technologies obsolete. We also believe we will face increasing competition from alternative UC solutions that employ new technologies or new combinations of technologies. Further, the commoditization of certain video conferencing products could lead to the availability of alternative, lower-cost UC products than ours, such as those offered by Google, Inc., Skype and others, and, accordingly, 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 regularly being formed and announced by our competitors, which may increase competition and result in increased downward pressure on our product prices. For instance, in April 2010, Cisco Systems completed its acquisition of Tandberg, previously our largest independent competitor. As a result, we now compete with a larger combined company with significantly greater financial and sales and marketing resources than ours, an extensive channel network and an expanded video communications solutions product line. This new product line may be 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 telepresence and/or videoconferencing equipment 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 completed its acquisition of Konftel in January 2011, Logitech completed its acquisition of LifeSize Communications, Inc. in December 2009, and LifeSize announced partnership with Alcatel-Lucent in April 2010. These consolidations and partnerships have resulted in increased competition and pricing pressure for our UC solutions, which could also negatively impact our future results of operations, as the newly-combined entities will have greater financial resources, deeper mass market sales channels and greater pricing flexibility than the standalone entities.

It is possible that in the future, we will see increased competition in all of our geographic theaters and product lines to the extent that one or more of our competitors join together either through mutual agreement or acquisitions to form new partnerships to compete against us. Rumored or actual consolidation of our partners and competitors can 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, including most recently in the third quarter of 2011, and could also impact us again in the future. Despite our growth in revenues in fiscal year 2010 and the first nine months of 2011, global economic concerns such as the varying pace of global economic recovery and the recent sovereign debt crisis in Europe and domestic debt and budget issues continue to create uncertainty and unpredictability, have resulted in longer selling cycles and cause us to continue to be cautious about our future outlook. A global economic downturn would negatively impact technology spending for our products and services and could materially adversely affect our business, operating results and financial condition. 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.

Table of Contents

These adverse economic conditions negatively impact our business, particularly our revenue potential, losses on investments and the collectability of our accounts receivable, by causing 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, decreased customer demand or demand for lower-end products, and decreased customer ability to pay their obligations when they become due to us.

***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:

- the impact of global economic conditions, including the restricted credit environment impacting the credit of our partners and end user customers, and the spread of these conditions to other countries, which has impacted, and could impact again, our global financial performance in future quarters;
- fluctuations in demand for our products and services, principally due to uncertain global economic conditions and increased competition;
- our ability to execute on our strategic and operating plans, including improving the effectiveness of our North American sales organization;
- changes to our global organization, which drive additional restructuring actions, particularly with respect to new executive hires and the corresponding impact on us as we assess our organizational requirements;
- slowing sales by our channel partners to their customers, which places further pressure on our channel partners to minimize inventory levels and reduce purchases of our products;
- 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, which can change rapidly due to technological innovations;
- the timing, size and mix of the orders for our products;
- the level and mix of inventory that we hold to meet future demand, including the impact of efforts to decrease inventory and improve inventory turns, which could negatively impact our gross margins as a result of under- absorption of our manufacturing costs in any given period;
- 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 regarding a number of highly complex and subjective variables used in determining stock-based compensation which may result in significant variability in the stock-based compensation costs we record, making such amounts difficult to accurately predict;

- fluctuations in the level of international sales and our exposure to foreign currency fluctuations on both revenues and expenses;

- dependence on 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. Further, as the scale of our business increases, meeting financial guidance may become less predictable and more difficult to achieve. In addition, financial guidance beyond the current quarter is inherently subject to greater risk and uncertainty.

Table of Contents

***We face risks associated with developing and marketing our products, including new product development and new product lines that require a more direct-touch sales model.***

*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 recent demand for HD video technology and lower cost video infrastructure products, the shift from premise-based equipment to cloud-based delivery models, evolving industry standards and frequent new product introductions, including an increased emphasis on software 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. However, in response to emerging market trends, and the network effect driven by business-to-business adoption of UC, we are expanding our focus to capture opportunities within emerging markets including mobile, small and medium businesses, cloud-based delivery and the consumer markets. 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 marketplaces, then our revenues may not grow as anticipated, we may devote significant financial and other resources to these areas, and our business may ultimately be harmed. For example, we are at the early stages of the formation of our relationships with Samsung, Motorola and others with respect to defining our mobility product offerings. Given the competitive nature of the mobility 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. Further, we are sponsoring the Open Visual Communications Consortium™ (the OVCC ) to leverage a global consortium of network and managed service providers to deliver broad connectivity service for unified communications and enable better business-to-business communication. The OVCC may not be as successful as we have planned, which could negatively impact our ability to deliver solutions for these markets.

The success of our new products depends on several factors, including proper new product definition, product cost, timely completion and introduction of new products, proper positioning of new products in relation to our total product portfolio and their relative pricing, our ability to price our products competitively while maintaining favorable product margins, differentiation of new products from those of our competitors, and market acceptance of these products. 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 in developing our immersive telepresence solutions and other product innovations as part of our key strategic initiatives to deliver cloud-based and mobile UC solutions. Ultimately, it is possible that our increased investments in this area may not yield the financial results that we plan to achieve from such investments as quickly as anticipated, or at all. In addition, in our high-end UC solutions, such as 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 and executive resources than we do, as well as greater name recognition and market presence with many potential customers. We and our channel partners must also effectively educate our potential end-user customers about the benefits of unified communication solutions and the products that we offer and the features available over those of our competitors.

We also need to continually educate and train our channel partners to avoid any confusion as to desirability of new product offerings compared to our existing product offerings. During the last few years, we launched several new product offerings, such as our mobility and cloud-based solutions, and there is a risk that these new products could cause confusion among our channel partners and end-users, thereby causing them to delay purchases of any product until they determine if these products are more desirable products than our other products. Any delays in future purchases could adversely affect our revenues, gross margins and operating results in the period of the delay. In addition, the introduction of new products may have an unintended negative impact on sales of and corresponding revenues associated with other products.

The shift in communications from circuit-switched to IP-based 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. 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 that can or will render existing products obsolete, 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, Denmark, India and Israel. Our need to manage large and geographically dispersed product development groups in our product lines results in certain inefficiencies and increased product development costs and creates 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, such as those we experienced in the first half of 2010, could also cause delays in product delivery to our customers and lead to increased costs as we are required to expedite shipping to meet our product order requests. 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. For example, in the past we have encountered defects with the lithium ion batteries in our wireless products. The occurrence of any of these events has resulted and could in the future result in the failure of a partial or entire product line or a temporary or permanent 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.

Any delays in the future for new product offerings currently under development, such as product offerings for the mobile, cloud-based delivery and consumer markets, any product shipment delays or any product quality issues, product defect issues or product recalls could adversely affect the market acceptance of these products (and correspondingly result in loss of market share), our ability to compete effectively in the market, and our reputation and the satisfaction of our customers, and therefore could lead to decreased product sales and could seriously harm our results of operations. 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 and excess inventory can negatively affect our results of operations.*

We operate in a high technology industry which is subject to rapid and frequent technology and market demand changes. These changes 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 when it is determined that the recorded value of existing inventory is greater than its fair market value. Also, the pace of change in technology development and in the release of new products has increased and is expected to continue to increase. If sales of one of these products has an unplanned negative effect on sales of another of our products, it could significantly increase the inventory levels of the negatively impacted product. 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.

*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™ Mobile solution is dependent on enterprise adoption of video technology and cloud-based delivery solutions on mobile devices. If the mobile video 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 product enhancements based upon anticipated demand for new features and functionality, such as next generation HD video resolution technology and scalable video codec capabilities. We may not be able to sell certain of our products in significant volumes and our business may be harmed if the use of new technologies that our future products are based on does not occur; if the development of suitable sales channels does not occur, or occurs more slowly than expected; if our products that incorporate new technologies 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 solutions will drive increased demand for our network infrastructure 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, such as customers who have our legacy Polycom® SoundStation® products, 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.

45

*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 which we are relying on for future revenues, such as product offerings for the mobile, cloud-based delivery and consumer markets, our profitability 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. 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 solutions equipment and network infrastructure products, which could cause us to reduce the prices for any of our product offerings or discontinue one or more of our products with the intent of simplifying our product offering and enhancing sales of a similar product. For example, we believe that the sequential declines in network infrastructure revenues that we experienced in the first and second quarters of 2010 are due in part to increased competitive pressures. Further, we have reduced prices in the past 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 similar 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 small-to-medium business, service provider and consumer markets.

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

Our products are becoming increasingly more complex and are incorporating more complex technologies, such as those included in our network infrastructure, UC solutions and software products. This has increased the need for enhanced product warranty and service capabilities. If we cannot adequately develop and train our internal support organization or maintain our relationship with our outside technical support provider, it could adversely affect our business.

In addition, sales of our immersive telepresence solutions are more complex sales transactions than our other product lines, and the end-user customer in such transactions typically purchases an enhanced level of support service from us so that it can ensure that this significant investment can be fully operational and satisfy the end-user s requirements. This requires an enhanced level of support and project management from us in terms of resources and technical knowledge of an end-user customer s telecommunication network. If we are unable to provide the proper level of support on a cost beneficial basis, it may cause damage to our reputation in this emerging market and may, as a result, harm our business and results of operations.

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

In addition to our historical acquisitions, we have acquired a number of new businesses including most recently, ViVu, HPVC and Accordent in 2011. As of September 30, 2011, our goodwill was valued at approximately $568.0 million and other purchased intangible assets was valued at approximately $77.8 million, which together represent a significant portion of the assets recorded on our condensed consolidated balance sheets. In addition, we expect to record goodwill and purchased intangibles relating to our acquisition of ViVu in the fourth quarter of 2011. 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, including market conditions, operating fundamentals, competition and general economic conditions, requires significant judgment. Therefore, we cannot assure you that a charge to operations will not occur as a result of future goodwill and intangible asset impairment tests. The decreases in revenue and stock price that have occurred and may occur in the future 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. If and when these write-downs do occur, they could harm our business and results of operations.

In addition, we have made investments in private companies which we classify as Other assets on our condensed consolidated balance sheets. The value of these investments is influenced by many factors, including the operating effectiveness of these companies, the overall health of these companies industries, the strength of the private equity markets and general market conditions. As of September 30, 2011, our investments in private companies were valued at $2.0 million. We recorded $0.5 million in impairment charge during the nine months ended September 30, 2011 in interest and other income/(expense), net. We did not record any such impairment charge during the three months ended September 30, 2011. We may make additional investments in private companies which would be subject to similar impairment risks, and these impairment risks may cause us to write down the recorded value of any such investments. 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.

Table of Contents

***Difficulties in identifying and integrating our acquisitions or implementing restructuring plans could adversely impact our business.***

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

We have completed a number of acquisitions during our operating history, with our most recent acquisitions being ViVu, the HPVC business of HP and Accordent. 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, to retain key personnel, or to successfully integrate the operations of these companies could harm our business, results of operations and cash flows. 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 new services such as the managed services business being acquired in the HPVC acquisition;
- potential deterioration of the acquired company s product sales and corresponding revenues due to integration activities and management distraction;
- managing integration issues including, in the case of our acquisition of HPVC, the continuing provisioning of transition services by HP to us;
- potentially creating confusion in the marketplace by ineffectively distinguishing or marketing the product offerings of the newly acquired company with our existing 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;
- the difficulty in leveraging the acquired company s and our combined technologies and capabilities across all product lines and customer bases; and
- our inability to retain previous customers or employees of an acquired company.

We have spent and will continue to spend significant resources identifying and acquiring businesses. Any of our acquisitions involve numerous risks, including difficulties in identifying targets with strategic synergies which yield an acceptable level of return on investment, financing strategic transactions and integrating the operations, technologies and products of the acquired companies, the diversion of our management s attention from other business concerns, particularly when dealing with the integration of large and complex organizations, and the potential loss of key employees of the acquired companies. Failure to achieve the anticipated benefits of these and any future acquisitions or to successfully integrate the operations of the companies we acquire could also harm our business, results of operations and cash flows. Additionally, we cannot assure you that we will not incur material charges in future quarters to reflect additional costs associated with any future acquisitions we may make.

*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 businesses 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 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. To the extent that any such cash outflows or additional costs exceed the amount of our recorded liability related to the sublease or termination of these lease obligations, we could incur a charge to operations which would harm our business and adversely impact our results of operations.

Table of Contents

***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, there is generally a slowdown for sales of our products in the European region in the third quarter of each year. Further, the timing of fiscal year ends for our government and enterprise customers may result in significant fluctuations from quarter to quarter. Seasonal fluctuations could negatively affect our business, which could cause our operating results to fall short of anticipated results for such quarters.

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

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

Our quarterly revenues and operating results depend in large part upon the volume and timing of channel partner orders received during a given quarter and the percentage of each order that we are able to ship and recognize as revenue during each quarter, each of which is extremely difficult to forecast. We have experienced longer sales cycles in connection with our high-end UC 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 telepresence and some network infrastructure 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. 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, it is likely that an increased amount of our revenue will be subject to such contractual acceptance terms. 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 various OEM agreements with major telecommunications equipment manufacturers, such as Avaya and Cisco Systems, whereby we manufacture our products to work with the equipment of the OEM. These relationships can create conflicts with our other channel partners who directly compete with our OEM partners, or could create conflicts among our OEM partners who compete with each other, which could adversely affect revenues from these other channel partners or our OEM partners. Conflicts among our OEM partners could also make continued partnering with these OEM partners increasingly difficult. Our OEM partners, including large competitors such as Cisco Systems, 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. 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 as these traditional relationships evolve over time. Due to these and other factors, channel conflicts could arise which cause channel partners to devote resources to other non-Polycom communications equipment, or to offer new products from our new and existing competitors, which would negatively affect our business or results of operations.

As part of our key strategic initiatives, we are building strategic partnerships with such companies as Avaya, Broadsoft, Inc., HP, IBM Corporation, Juniper Networks, Inc., McAfee, Inc., Microsoft Corporation and Siemens AG. For example, in conjunction with our acquisition of HP s HPVC business, HP and Polycom have entered into a strategic relationship in which we will serve as an exclusive partner to HP for certain video unified communications solutions for both resale and internal HP deployments. This exclusivity is limited to the Polycom telepresence, group video systems, and UC network infrastructure product offerings available at the applicable time during the exclusivity period and does not preclude the purchase or resale of Microsoft products sold and developed in these categories. 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 unified communications market and to take advantage of anticipated future market growth. For example, our prototypical home telepresence solution, as demonstrated in January 2010 as part of IBM s Connected Home initiative, may not result ultimately in our ability to capture successfully the opportunities in the consumer market. Further, our key strategic relationship with Microsoft in which we are jointly developing and marketing a unified communications solution that leverages the demand for Microsoft s next generation UC server could negatively impact our ability to compete effectively in the UC marketplace if we are unsuccessful. Our mobile UC solutions initiative is 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 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. Further, 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 consequence of these conflicts, there is the potential for our channel and strategic partners to compete head-to-head with us and 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 network infrastructure 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, potentially resulting in strains on our existing relationships with these companies. Further, our strategic partners may acquire businesses that are competitive with us, such as Avaya s acquisition of Konftel in January 2011. Any such strain or acquisition could limit the potential contribution of our strategic relationships to our business, restrict our ability to provide interoperable features in our products, restrict our ability to form strategic relationships with these companies in the future and create additional competitive pressures on us, including downward pressure on our average selling prices, which would result in a decrease in both revenues and gross margins, any of which could harm our business.

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

We sell a significant amount of our products to channel partners who maintain their own inventory of our products for sale to dealers and end-users. Our revenue estimates associated with products stocked by some of our channel partners are based largely on end-user sales reports that our channel partners provide to us on a monthly basis. To date, we believe this data has been generally accurate. To the extent that this sales-out and channel inventory data is inaccurate or not received timely, we may not be able to make revenue estimates for future periods. Further, if these channel partners are unable to sell an adequate amount of their inventory of our products in a given quarter to dealers and end-users 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.

*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 to the extent 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, if not appropriately handled. There can be no assurance that our channel partners will be receptive to future changes or that we will receive the positive benefits that we are anticipating 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. Further, our ability to maintain such relationships on favorable contractual terms may be limited. For instance, the combined entity may be successful in negotiating the most favorable contractual terms out of each of their respective contracts, including terms such as credit and acceptance, which are less favorable than those in our existing contracts with each channel partner. 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.

Table of Contents

*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 have grown our revenues and our customer base, our exposure to credit risk has increased. In addition, global economic uncertainty, a downturn in technology spending in the United States and other countries, and the financial services crisis have restricted 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, jeopardizing the collectability of our revenues from such channel partners and negatively impacting our future results as they reorganize or go out of business. For example, our partner Nortel Networks Corporation filed for bankruptcy protection in the first quarter of 2009.

*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. When we do enter into a long-term contract, the contract is generally terminable at the convenience of the channel partner. In the event of an early 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. If this did not occur and we were unable to rapidly replace that revenue source, its loss would harm our results of operations.

*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 will continue to increase and to account for a significant portion of our revenues for the foreseeable future and that international operating expenses will continue to increase. 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, including the restricted credit environment;
- potential foreign currency exchange rate fluctuations, including the recent volatility of the U.S. dollar, and the impact of our underlying hedging programs;
- environmental and trade protection measures 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;
- unexpected changes in regulatory requirements and tariffs;
- longer payment cycles;
- potentially adverse tax consequences;
- the near and long-term impact of the instability in the Middle East or other hostilities; and

adverse economic impact of terrorist attacks and incidents and any military response to those attacks.

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 cannot assure you that we will 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. In particular, with the acquisition of HP s HPVC business, a number of the customer contracts that we will assume provide for local currency billings. 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 margins. In addition, significant adverse changes in currency exchange rates could cause our products to become relatively more expensive to customers in a particular country, leading to a reduction in revenue or profitability in that country, as discounts may be temporarily or permanently affected. 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, thereby further increasing our foreign exchange risk.

Table of Contents

While we do not hedge for speculative purposes, as a result of our increased exposure to currency fluctuations, such as we have seen in the Euro and British Pound in 2010, we typically engage in currency hedging activities to mitigate currency fluctuation exposure. As a result, 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. Due to the denomination of our European product sales in Euros and of our United Kingdom product sales in British Pounds, we have increased our hedging activity. 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 percentage of actual revenues covered by our hedge contracts, the exchange rate in our underlying hedge contracts and the actual exchange rate during the quarter. For example, as a result of our program, in the first, second and third quarters of 2011, we reduced operating income by $0.5 million, $2.4 million and $0.3 million, respectively, as compared to increasing operating income in the first, second, third and fourth quarters of 2010 by 0.5 million, $1.7 million, $1.4 million and $1.0 million, respectively.

***Difficulties we may encounter managing a substantially larger business could adversely affect our operating results.***

*If we fail to successfully attract and retain highly qualified management personnel, our business will 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. For example, in September 2010, we announced the hiring of multiple new executives with responsibilities including strategy, technology, products, development, EMEA sales and marketing, global services and human resources. We announced the addition of a worldwide sales leader in the third quarter of 2011 and, most recently, changes impacting our sales leadership and organizational structure in North America. As these new executives assess their areas of responsibilities and define their organizations, it will likely result in additional organizational changes or restructuring actions and charges. Future changes to our executive and senior management teams, including new executive hires or departures, or other organizational changes implemented by our executive leadership team, could cause disruption to the business and have an impact on our ability to execute successfully in future periods, particularly with respect to the execution of our go-to-market strategy and the expected resulting revenues, 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, which could harm our business.

*We have experienced significant growth in our business and operations due to internal expansion and business acquisitions, and if we do not appropriately manage this growth and any future growth, our operating results may be negatively affected.*

Our business has grown in recent years through internal expansion and business acquisitions and we announced several key strategic initiatives for 2011 that we are undertaking to further grow our business, including developing our cloud-based UC solutions, delivering our UC solutions to mobile platforms, leveraging our strategic partnerships, enabling service providers to deploy new UC services through our network infrastructure and at the end-user level, and increasing innovation across all of our products. Our execution against our strategic initiatives may cause strain on our organizational resources and may not ultimately result in the return on investment that is anticipated. Further, continued growth in general, which may include growth through business acquisitions, such as our acquisitions of ViVu in October 2011, HP s HPVC business in July 2011 and Accordent in March 2011, may continue to cause a significant strain on our infrastructure, internal systems and managerial resources. To manage our growth effectively, we must continue to improve and expand our infrastructure, including information technology, financial operating and administrative systems and controls, and continue managing headcount, capital and processes in an efficient manner. In addition, we must continue to evolve our processes, such as the process we use for collecting customer information, to take advantage of automation tools as the size of our business grows, or the processes that we developed when we were a smaller company may not be sustainable and could cause harm to our business. We also may be less able to predict and effectively control our operating expenses due to the growth and increasing complexity of our business. In addition, our information technology systems may not grow at a sufficient rate to keep up with the processing and information demands placed on them by a much larger company. The efforts to continue to expand our information technology systems or our inability to do so could harm our business. Further, revenues may not grow at a sufficient rate to absorb the costs associated with a larger overall headcount.

We have a Shared Services Center ( SSC ) in Beijing, China, to perform certain accounting, order entry and other functions previously performed in regional headquarter locations and we may expand our SSC operations in the future. Efforts to globalize these shared functions into one location may not yield the intended benefits and could result in higher turnover than planned, which could have an adverse effect on these functions during the transition. In addition, 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.

Table of Contents

We have in the past, and we may again in the future, implement restructuring plans to eliminate or relocate positions in order to reallocate resources to more strategic growth areas of the business or to reduce our operating costs. Such restructuring actions result in charges to operations of $1.3 million, $4.7 million and $8.1 million that we recorded as restructuring costs during the three and nine months ended September 30, 2011 and the year ended December 31, 2010, respectively. Any organizational disruptions associated with restructuring activities would require increased management attention and financial expenditures, or we may discover we terminated the wrong personnel or cut too deeply, which may impact our operations. If we are unable to manage our growth effectively, if we experience a shortfall in resources or if we must take additional restructuring charges, our results of operations will be harmed.

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

Some key components used in our products are currently available from only one source and others are available from only a limited number of sources, including some key integrated circuits and optical elements. Because of such limited sources for component parts, we may have little or no ability to procure these parts on favorable pricing terms. We also obtain certain plastic housings, metal castings, batteries, and other components from suppliers located in China and certain Southeast Asia countries, and any political or economic instability in that region in the future, natural disasters, quarantines or other 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 the military action in Iraq, Libya, Afghanistan 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 network infrastructure 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 from time to time been subject to limited allocations by suppliers. 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. Further, the recent flooding in Thailand has affected certain of our suppliers, which could negatively impact the supply of components for some of our products. In addition, we may incur additional costs to resolve these supply shortages, which would negatively impact our gross margins, as we have seen in recent quarters.

Moreover, 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, our inability to resolve any contractual disputes that may arise between us, the financial instability of a strategic partner or a supplier or their inability to obtain any financing necessary to adequately fund their operations, particularly in light of the unpredictable economic environment, or other factors, could have a negative impact on our ability to produce and sell certain products and product lines and, consequently, may adversely affect our revenues and results of operations.

In the case of the managed services we provide to users of our telepresence products, we are dependent upon third party suppliers for such services. In the event that any such supplier is acquired by a competitor or faces financial difficulty, such event creates a risk of managed service discontinuity for our customers while we search for a replacement provider and may materially adversely affect our ability to sell our telepresence products.

Additionally, our HDX solutions and network system products are designed based on digital signal processors and integrated circuits produced by Texas Instruments and cameras produced by JVC. If we could no longer obtain integrated circuits or cameras from these suppliers, we would incur substantial expense and take substantial time in redesigning our products to be compatible with components from other manufacturers, and we cannot assure you that we would 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 could 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.

Finally, 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, such as the price increases for components as a result of increased transportation and manufacturing costs of our suppliers, or our inability to obtain lower component prices in response to competitive price reductions.

52

Table of Contents

***Manufacturing disruption or capacity constraints or failure of our information technology systems would harm our business.***

We subcontract the manufacture of most of our products to Celestica, Askey, Flextronics and VTech, which are all third-party contract manufacturers. We use Celestica s facilities in Thailand and China, Flextronics facilities in Mexico and Askey s and VTech s facilities in China and should there be any disruption in services due to natural disaster, terrorist acts, quarantines or other disruptions associated with infectious diseases, or economic or political difficulties in any of these countries or Asia or for any other reason, such disruption would harm our business and results of operations. While we have begun to develop secondary manufacturing sources for certain products, Celestica s facilities are currently the manufacturer for substantially all of these products, which means we are essentially sole-sourced for the manufacturing of such products, and if Celestica experiences an interruption in operations, suffers from capacity constraints, which may include constraints based on production demands from us as we grow our business, 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.

The majority of the DECT wireless products are manufactured in Horsens, Denmark. Any event that may disrupt or indefinitely discontinue the facilities capacity to manufacture, assemble and repair our DECT wireless products could impair our ability to generate revenue, fulfill orders and attain financial goals for these products.

Finally, certain of our thinly capitalized subcontractors may fail or be detrimentally harmed in the unpredictable economic environment, which could have a materially adverse impact on our results of operations.

***We face risks relating to changes in rules and regulations of the FCC and other regulatory agencies.***

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 ( FCC ) 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 newly acquired 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, if at all possible, 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.

Table of Contents

*We face intellectual property infringement claims and other 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 (patent-related and otherwise) 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 and possibly material effect on our business and results of operations. In addition, we may become involved in matters such as regulatory investigations or other governmental or private legal proceedings, which could result in requests for information from us that could be distracting, expensive and time consuming for us while we comply with such requests, 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. An unfavorable outcome in any such claim or proceeding 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 the recent instability in the foreign currency exchange market.

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. The primary objectives of our investment activities are to preserve principal, maintain adequate liquidity and portfolio diversification while at the same time maximizing yields without significantly increasing risk. To achieve these objectives, a majority of our marketable investments include debt instruments of the U.S. government and its agencies, investment-grade corporate debt securities, bank certificates of deposit and money market instruments denominated in U.S. dollars.

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. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments. In the nine months ended September 30, 2011, we did not recognize any other-than-temporary impairment or losses on our investments.

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. A significant portion of our net revenue and expenses are transacted in U.S. dollars. However, some of these activities are conducted in other currencies, primarily currencies in Europe and Asia. As a response to the risks of changes in value of foreign currency denominated transactions, we may enter into foreign currency forward contracts or other instruments to mitigate these risks. Our foreign currency forward contracts reduce, but do not eliminate, the impact of currency exchange rate movements. For example, we do not execute forward contracts in all currencies in which we conduct business or hedge the full amount of each exposure identified. The translation of these foreign currency denominated transactions will impact net revenues, operating expenses and net income as a result of fluctuations in the U.S. dollar against foreign currencies. Accordingly, such amounts denominated in foreign currencies may fluctuate in value and produce significant earnings and cash flow volatility. For example, as a result of our cash flow hedging program, in the first, second and third quarters of 2011, we reduced operating income by $0.5 million, $2.4 million and $0.3 million, respectively, as compared to increasing operating income in the first, second, third and fourth quarters of 2010 by $0.5 million, $1.7 million, $1.4 million and $1.0 million, respectively.

Table of Contents

***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, our or our partner s lack of reporting or compliance 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.

***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, 2010, that our internal control over financial reporting was effective as of December 31, 2010, 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.

***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 and public disclosure such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and newly enacted SEC regulations, have created additional compliance requirements for companies such as ours. Our efforts to comply with these requirements have resulted in, and are likely to continue to result 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. In addition, given the growth and expansion of our business, we must 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.

***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 the manner in which we conduct our business. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective.

***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.

Table of Contents

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 loss of our intellectual property or 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.

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 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 will likely increase as compared to previous years. 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. For example, our partner Nortel filed for bankruptcy protection in the first quarter of 2009. Either a delay in collections or bankruptcy would harm our cash flow and days sales outstanding performance.

In addition, as we manage our business and focus on shorter 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 a greater mix of ocean freight versus air freight to reduce freight costs. For instance, our inventory levels have increased from the September 30, 2010 levels as a result of these factors.

***Our stock price fluctuates as a result of the conduct of our business and stock market fluctuations and may be extremely volatile.***

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;

- 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 or any financial guidance we may provide to the market, which is inherently subject to greater risk and uncertainty as expectations increase;
- general market conditions or market conditions specific to technology industries; and
- domestic and international macroeconomic factors.

In addition, the stock market has in the past experienced significant price and volume fluctuations related to general economic, political and market conditions. These fluctuations have had a substantial effect on the market prices for many high technology companies like us and are often unrelated to the operating performance of the specific companies. As with the stock of many other public companies, the market price of our common stock continues to be volatile. This excessive volatility in our stock price is unpredictable and may continue for an indefinite period of time.

Table of Contents

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

***Share Repurchase Program***

The following table provides a month-to-month summary of the stock purchase activity during the quarter ended September 30, 2011:

| 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) |
|---|---|---|---|---|
| 7/1/11 to 7/31/11 | 939 | $ 31.20 | | $ 118,013,000 |
| 8/1/11 to 8/31/11 | 853,564 | $ 21.93 | 619,362 | $ 104,657,000 |
| 9/1/11 to 9/30/11 | 295,112 | $ 23.39 | 282,800 | $ 98,042,000 |
| Total | 1,149,615 | $ 22.31 | 902,162 | |

(1) Includes 247,453 shares repurchased in July through September 2011 to satisfy tax withholding obligations as a result of the vesting of performance shares and restricted stock units.

(2) In May 2008, the Company s Board of Directors approved a share repurchase plan under which the Company at its discretion may purchase shares in the open market from time to time with an aggregate value of up to $300.0 million ( the 2008 share repurchase plan ). As of September 30, 2011, the Company was authorized to purchase up to an additional $98.0 million of shares in the open market under the 2008 share repurchase plan. These shares of common stock have been retired and reclassified as authorized and unissued shares. The 2008 share repurchase plan does not have an expiration date but is limited by the dollar amount authorized.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable.

**Item 4. (REMOVED AND RESERVED)**

Not Applicable.

**Item 5. OTHER INFORMATION**

*Costs Associated with Exit or Disposal Activities*

In October 2011, management committed to a restructuring plan designed to better align and allocate resources to more strategic growth areas of the business. These actions are primarily related to the reorganization of our global go-to-market and other organizations. The restructuring plan will result in the elimination of approximately 5% of our global workforce with the majority of the reductions taking effect in the fourth quarter of 2011, enabling the creation of new positions that better align with our strategic initiatives. We currently expect to record restructuring charges and make cash expenditures between approximately $10.0 million and $11.0 million through the second quarter of 2012 resulting from this action, primarily related to severance and other employee termination benefits.

In addition, we have approved plans to consolidate and eliminate certain facilities in order to gain efficiencies, including the combination of our headquarters and San Jose, California operations into one location. As a result, we expect to record approximately $12.0 million in additional restructuring charges related to idle facilities upon vacating these facilities in the second quarter of 2012.

**Item 6. EXHIBITS**

| Exhibit No. | Description |
|---|---|
| 10.1(1)* | Form of Performance Share Agreement for Officers. |
| 10.2(1)* | Form of Performance Share Agreement for Non-Officers. |
| 10.3(1)* | Form of Restricted Stock Unit Agreement for Officers. |
| 10.4(1)* | Form of Restricted Stock Unit Agreement for Non-Officers. |

Table of Contents

| Exhibit No. | Description |
|---|---|
| 10.5(1)* | Form of Restricted Stock Unit Agreement for Non-Employee Directors. |
| 10.6(1)* | Offer Letter with Tracey Newell, dated June 27, 2011. |
| 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, Finance and Administration 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 Schema 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.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

(1) Filed herewith.

**Table of Contents**

## SIGNATURES

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

Dated: October 31, 2011

POLYCOM, INC.

/s/ Andrew M. Miller
**Andrew M. Miller**
**President and Chief Executive Officer**
**(Principal Executive Officer)**

/s/ Michael R. Kourey
**Michael R. Kourey**
**Executive Vice President, Finance and Administration,**

**and Chief Financial Officer**
**(Principal Financial Officer)**

/s/ Laura J. Durr
**Laura J. Durr**
**Senior Vice President and Worldwide Controller**
**(Principal Accounting Officer)**

Table of Contents

## EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 10.1(1)* | Form of Performance Share Agreement for Officers. |
| 10.2(1)* | Form of Performance Share Agreement for Non-Officers. |
| 10.3(1)* | Form of Restricted Stock Unit Agreement for Officers. |
| 10.4(1)* | Form of Restricted Stock Unit Agreement for Non-Officers. |
| 10.5(1)* | Form of Restricted Stock Unit Agreement for Non-Employee Directors. |
| 10.6(1)* | Offer Letter with Tracey Newell, dated June 27, 2011. |
| 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, Finance and Administration 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 Schema 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.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

(1) Filed herewith.