PLANTRONICS INC /CA/
Form 10-Q
February 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 30, 2006

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 1-12696

Plantronics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**77-0207692**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

345 Encinal Street
Santa Cruz, California 95060
(Address of principal executive offices)
(Zip Code)

(831) 426-5858
(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 SNo £

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

Large accelerated filer S Accelerated filer £ Non accelerated filer £

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

As of January 26, 2007, 47,893,344 shares of common stock were outstanding.

1

Plantronics, Inc.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	Page No.
Item 1. Financial Statements (unaudited):	
Condensed Consolidated Balance Sheets as of March 31, 2006 and December 31, 2006	3
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2005 and 2006	4
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2005 and 2006	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	46
Item 4. Controls and Procedures	47
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	48
Item 1A. Risk Factors	48
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	61
Item 6. Exhibits	61
Signatures	62

Table of Contents

Part I -- FINANCIAL INFORMATION
Item 1. Financial Statements.

PLANTRONICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(Unaudited)

		March 31, 2006		December 31, 2006
ASSETS				
Current assets:				
Cash and cash equivalents	$	68,703	$	68,743
Short-term investments		8,029		--
Total cash, cash equivalents, and short-term investments		76,732		68,743
Accounts receivable, net		118,008		131,735
Inventory		105,882		134,263
Deferred income taxes		12,409		12,590
Other current assets		15,318		13,870
Total current assets		328,349		361,201
Property, plant and equipment, net		93,874		97,227
Intangibles, net		109,208		102,984
Goodwill		75,077		74,250
Other assets		5,741		6,190
Total assets	$	612,249	$	641,852
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Line of credit	$	22,043	$	6,011
Accounts payable		48,574		45,975
Accrued liabilities		43,081		59,129
Income taxes payable		13,231		7,224
Total current liabilities		126,929		118,339
Deferred income taxes		48,246		41,137
Long-term liabilities		1,453		1,263
Total liabilities		176,628		160,739
Stockholders' equity:				
Preferred stock, $0.01 par value per share; 1,000 shares authorized, no shares outstanding		--		--
Common stock, $0.01 par value per share; 100,000 shares authorized, 66,270 and 66,617 shares issued at March, 31, 2006 and December 31, 2006, respectively		663		666
Additional paid-in capital		316,863		334,303
Accumulated other comprehensive income		3,934		2,041

Retained earnings		509,563		542,429
		831,023		879,439
Less: Treasury stock (common: 18,732 shares at March 31, 2006 and December 31, 2006) at cost		(395,402)		(398,326)
Total stockholders' equity		435,621		481,113
Total liabilities and stockholders' equity	$	612,249	$	641,852

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

3

Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	**2006**	**2005**	**2006**
Net revenues	$ 222,512	$ 215,435	$ 543,646	$ 605,438
Cost of revenues	128,486	134,099	302,469	370,741
Gross profit	94,026	81,336	241,177	234,697
Operating expenses:				
Research, development and engineering	15,980	17,709	45,868	53,113
Selling, general and administrative	43,130	46,809	110,845	136,256
Gain on sale of land	-	-	-	(2,637)
Total operating expenses	59,110	64,518	156,713	186,732
Operating income	34,916	16,818	84,464	47,965
Interest and other income (expense), net	(596)	1,493	667	2,745
Income before income taxes	34,320	18,311	85,131	50,710
Income tax expense	9,279	3,121	24,685	10,704
Net income	$ 25,041	$ 15,190	$ 60,446	$ 40,006
Net income per share - basic	$ 0.53	$ 0.32	$ 1.29	$ 0.85
Shares used in basic per share calculations	46,834	47,409	46,968	47,256
Net income per share - diluted	$ 0.52	$ 0.32	$ 1.24	$ 0.83
Shares used in diluted per share calculations	48,165	47,922	48,768	47,940
Cash dividends declared per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

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

Table of Contents

PLANTRONICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 60,446	$ 40,006
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation and amortization	16,118	21,824
Stock-based compensation	665	12,617
Provision for doubtful accounts	938	618
Provision for excess and obsolete inventories	4,353	11,149
Deferred income taxes	(1,716)	(5,939)
Income tax benefit associated with stock option exercises	1,401	519
Excess tax benefits from stock-based compensation	-	(637)
Loss (gain) on sale or disposal of property, plant and equipment	46	(2,571)
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(23,684)	(14,345)
Inventory	(23,135)	(39,396)
Other current assets	(468)	31
Other assets	1,114	(448)
Accounts payable	7,343	(2,599)
Accrued liabilities	1,472	13,301
Income taxes payable	1,632	(5,966)
Cash provided by operating activities	**46,525**	**28,164**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of short-term investments	517,760	222,424
Purchase of short-term investments	(353,344)	(214,395)
Acquisitions of Altec Lansing and Octiv, net of cash acquired	(165,020)	-
Proceeds from the sale of land	-	2,667
Capital expenditures and other assets	(31,350)	(18,739)
Cash used for investing activities	**(31,954)**	**(8,043)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	(69,631)	(4,021)
Proceeds from sale of treasury stock	2,507	2,723
Proceeds from exercise of stock options	8,408	2,676
Proceeds from line of credit	45,000	-
Repayment of line of credit	(12,943)	(16,032)
Payment of cash dividends	(7,089)	(7,140)
Excess tax benefits from stock-based compensation	-	637
Cash used for financing activities	**(33,748)**	**(21,157)**
Effect of exchange rate changes on cash and cash equivalents	(1,030)	1,076
Net (decrease) increase in cash and cash equivalents	**(20,207)**	**40**
Cash and cash equivalents at beginning of period	**78,398**	**68,703**

Cash and cash equivalents at end of period	**$**	**58,191**	**$**	**68,743**
SUPPLEMENTAL DISCLOSURES				
Cash paid for:				
Interest	$	701	$	366
Income taxes	$	24,341	$	22,681

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

Table of Contents

PLANTRONICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Plantronics, Inc. (“Plantronics”, the “Company”, "we”, or "our") and its wholly owned subsidiaries have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). All intercompany balances and transactions have been eliminated.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements (“financial statements”) of Plantronics, Inc., have been prepared on a consistent basis with the April 1, 2006 audited consolidated financial statements, except for the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”), discussed in Note 3, “Stock-Based Compensation” and include all adjustments, consisting of normal recurring adjustments, necessary to fairly state the information set forth herein. The financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (“SEC”); and, therefore, omit certain information and footnote disclosures necessary to present the statements in accordance with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 1, 2006, which was filed with the SEC on June 5, 2006. The results of operations for the interim period ended December 30, 2006 are not indicative of the results to be expected for the full year ended March 31, 2007.

Certain financial statement reclassifications have been made to prior period amounts to conform to the current period presentation. These changes had no impact on stockholders' equity, previously reported net income, or the net change in cash and cash equivalents.

The Company has two reportable segments as a result of the Company’s acquisition of Altec Lansing Technologies, Inc. (”Altec Lansing”) in the second quarter of fiscal 2006. The Audio Communications Group (“ACG”) represents the original Plantronics business as operated prior to the acquisition. The Audio Entertainment Group (“AEG”) includes the Altec Lansing business.

The Company’s fiscal year ends on the Saturday closest to March 31. The current fiscal year ends on March 31, 2007 and the prior fiscal year ended on April 1, 2006. The Company’s current and prior fiscal years consist of 52 weeks. The third quarter end of fiscal 2007 was on December 30, 2006, and the corresponding quarter end in fiscal 2006 was on December 31, 2005. Both the current and corresponding fiscal quarter a year ago consist of 13 weeks.

For purposes of presentation, we have indicated our accounting year as ending on March 31 and our interim quarterly periods as ending on the applicable month end.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes”, which clarifies the accounting for uncertainty in tax positions. This interpretation prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The provisions of FIN 48 are effective as of the beginning of fiscal year 2008. The Company is currently evaluating the impact of adopting the provisions of FIN 48 on its financial statements.

Table of Contents

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements", which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company is currently evaluating the impact of adopting the provisions of SFAS 157 on its financial statements.

In September 2006, the Staff of the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year's financial statements are materially misstated. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 is not expected to have an impact on the Company's consolidated financial position, results of operations or cash flows.

3. STOCK-BASED COMPENSATION

Adoption of SFAS 123(R)

The Company has stock plans pursuant to which equity awards can be made to its employees and non-employee directors, including stock options and restricted stock awards. The Company also has an employee stock purchase plan ("ESPP") pursuant to which employees can purchase the Company's common stock.

Effective April 2, 2006, the first day of fiscal year 2007, the Company adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and non-employee directors based on estimated fair values. SFAS 123(R) replaced Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", and supersedes the Company's previous accounting under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under the intrinsic value method, with the exception of the Company's restricted stock awards, the Company generally recorded no stock-based compensation expense associated with its stock option and ESPP awards.

The Company elected to apply the modified prospective transition adoption method as provided by SFAS 123(R), and consequently, previously reported amounts have not been restated. Under this method, compensation expense for share-based payments include: (a) compensation expense for all share-based payment awards granted prior to but not yet vested as of April 2, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based payment awards granted or modified on or after April 2, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The estimated fair value of the Company's stock-based awards is amortized over the vesting period of the awards on a straight line basis. As compensation expense is recognized only for those awards that are expected to vest, such amounts have been reduced by estimated forfeitures. Previously, under SFAS 123, the Company recorded forfeitures as they occurred.

Table of Contents

The following table shows the amount of stock-based compensation expense recorded under SFAS 123(R) included in the condensed consolidated statement of operations:

($ in thousands, except per share data)	**Three Months Ended December 31, 2006**	**Nine Months Ended December 31, 2006**
Cost of revenues	$ 730	$ 2,210
Research, development and engineering	935	2,843
Selling, general and administrative	2,576	7,564
Stock-based compensation expense included in operating expenses	3,511	10,407
Total stock-based compensation [1]	4,241	12,617
Income tax benefit	(1,358)	(4,087)
Total stock-based compensation expense, net of tax	$ 2,883	$ 8,530
Decrease in basic and diluted earnings per share	$ 0.06	$ 0.18

(1) The three and nine months ended December 31, 2006 include stock-based compensation expense associated with restricted stock awards of $0.6 million and $1.5 million, respectively.

Prior to the adoption of SFAS 123(R), benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows in our condensed consolidated statements of cash flows. SFAS 123(R) requires that they be reported as a financing cash inflow rather than as an operating cash inflow. As a result of adopting SFAS 123(R), excess tax benefits for the nine months ended December 31, 2006 of $0.6 million have been classified as financing cash inflows.

The Company continues to evaluate the transition methods for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R), including the establishment of the beginning balance of the additional paid-in capital pool (“APIC pool”), and has until the end of fiscal 2007 to select a transition method. The Company is currently following the alternative transition method discussed in FASB Staff Position No. 123(R)-3, “Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards.”

Prior to the Adoption of SFAS 123(R)

Prior to the adoption of SFAS 123(R), the Company used the intrinsic value method as prescribed in APB 25, to account for all stock-based employee compensation plans and had adopted the disclosure-only alternative of SFAS 123, as amended by SFAS No. 148, “Accounting for Stock-Based Compensation - Transition and Disclosure.”

Table of Contents

Consistent with the disclosure provisions of SFAS 148, the pro forma information for the three and nine months ended December 31, 2005 was as follows:

(in thousands, except per share data)		Three Months Ended December 31, 2005		Nine Months Ended December 31, 2005
Net income - as reported	$	25,041	$	60,446
Add stock-based employee compensation expense included in net income, net of tax		269		428
Less stock-based compensation expense determined under fair value-based method, net of tax		(2,668)		(8,897)
Net income - pro forma	$	22,642	$	51,977
Basic net income per share - as reported	$	0.53	$	1.29
Basic net income per share - pro forma	$	0.48	$	1.11
Diluted net income per share - as reported	$	0.52	$	1.24
Diluted net income per share - pro forma	$	0.47	$	1.07

Valuation Assumptions

The Company estimates the fair value of stock options and ESPP shares using a Black-Scholes option valuation model, consistent with the provisions of SFAS 123(R), SEC Staff Accounting Bulletin No. 107 ("SAB 107") and the Company's prior period pro forma disclosures of net income under SFAS 123. The fair value of each option grant is estimated on the date of grant using the straight-line attribution approach with the following weighted average assumptions:

	Three Months Ended December 31,		Nine Months Ended December 31,	
Stock Options	**2005**	**2006**	**2005**	**2006**
Expected volatility	53.0%	42.5%	55.3%	42.5%
Risk-free interest rate	4.3%	4.7%	4.1%	4.7%
Expected dividends	0.7%	1.0%	0.6%	1.0%
Expected life (in years)	5.0	4.2	5.0	4.2

	Nine Months Ended December 31,	
ESPP	**2005**	**2006**
Expected volatility	31.2%	52.8%
Risk-free interest rate	4.2%	5.2%
Expected dividends	0.6%	1.3%
Expected life (in years)	0.5	0.5

No ESPP plan shares were granted during the three months ended December 31, 2005 and 2006 as the ESPP purchase periods begin every six months on August 1 and February 1 of each year.

Table of Contents

Prior to the adoption of SFAS 123(R), the Company used historical volatility in deriving its expected volatility assumption. The expected stock price volatility for the three and nine months ended December 31, 2006 was determined based on an equally weighted average of historical and implied volatility. Implied volatility is based on the volatility of the Company's publicly traded options on its common stock. The Company determined that a blend of implied volatility and historical volatility is more reflective of market conditions and a better indicator of expected volatility than using purely historical volatility. The expected life for the three and nine months ended December 31, 2006 was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The dividend yield assumption is based on our current dividend and the market price of our common stock at the date of grant.

The weighted average grant date fair value of options granted during the three and nine months ended December 31, 2006 was $7.63 and $7.68 per share, respectively and $13.12 and $15.14 per share, respectively during the three and nine months ended December 31, 2005. The weighted average grant date fair value of ESPP shares granted was $4.60 and $6.48 per share, respectively during the nine months ended December 31, 2006 and 2005. There were no ESPP shares granted during the first and third quarters of fiscal 2006 or 2005.

Stock Options and Restricted Stock Awards

Under the Company's 2003 Stock Plan, Plantronics may grant equity awards to employees, directors and consultants of the Company. Under the plan, the Company may grant incentive stock options, nonqualified stock options and restricted stock awards. Options and restricted stock awards generally vest over a 4 to 5 year period, and generally expire 7 years from the date of grant. At December 31, 2006, 0.9 million shares were available for future grant under the 2003 Stock Plan.

The Company's 1993 Stock Plan was terminated in September 2003. Options awarded under the 1993 Stock Plan generally vested over a 4 to 5 year period, and generally expired 10 years from the date of grant. While shares are no longer available for future grant under the 1993 Stock Plan, options previously granted under the 1993 Plan remain outstanding.

The following is a summary of the Company's stock option activity during the nine months ended December 31, 2006:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at March 31, 2006	8,277	$ 26.75		
Options granted	1,446	$ 20.58		
Options exercised	274	$ 9.75		$ 3,006
Options forfeited or expired	313	$ 30.98		
Outstanding at December 31, 2006	9,136	$ 26.14	5.07	$ 11,102
Vested and expected to vest at December 31, 2006	8,771	$ 26.23	5.02	$ 10,849
Exercisable at December 31, 2006	6,240	$ 27.17	4.47	$ 8,791

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the Company's closing stock price of $21.20 as of December 29, 2006 for options that were in-the-money as of that date. The intrinsic value of options exercised during the nine month period ended December 31, 2006 was $3.0 million. The total cash received from employees as a result of employee stock option exercises during the nine months ended December 31, 2006 was $2.7 million.

Table of Contents

Compensation expense recognized for stock options during the three and nine months ended December 31, 2006 was $3.4 million and $10.4 million, respectively. As of December 31, 2006, total unrecognized compensation cost related to unvested stock options was $27.8 million which is expected to be recognized over a weighted average period of 2.9 years.

The Company settles employee stock option exercises with newly issued common shares approved by stockholders for inclusion in the 1993 Stock Plan or the 2003 Stock Plan.

Restricted Stock Awards

Compensation expense recognized for restricted stock awards was $0.5 million and $1.5 million for the three and nine months ended December 31, 2006, respectively, and $0.4 million and $0.7 million for the three and nine months ended December 31, 2005, respectively.

The following is a summary of the Company's restricted stock award activity during the nine months ended December 31, 2006:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Non-vested at March 31, 2006	316	$ 29.09
Granted	79	$ 20.43
Vested	(57)	$ 29.25
Forfeited	(7)	$ 27.15
Non-vested at December 31, 2006	331	$ 27.03

As of December 31, 2006, total unrecognized compensation cost related to non-vested restricted stock awards was $7.4 million, which is expected to be recognized over a weighted average period of 3.9 years. The total fair value of restricted stock awards vested during the nine months ended December 31, 2006 was $1.7 million.

ESPP

Under the Employee Stock Purchase Plan, eligible employees may contribute a portion of their compensation to purchase shares of the Company's common stock at a purchase price per share equal to 85% of the lesser of the fair market value of Plantronics' common stock on the first or last day of each six month offering period. At December 31, 2006, there were 261,000 shares reserved for future issuance under the ESPP.

Compensation expense recognized for the ESPP for the three and nine months ended December 31, 2006 was $0.3 million and $0.7 million, respectively. As of December 31, 2006, there was $0.1 million of unrecognized compensation cost related to the ESPP that is expected to be fully recognized during the next fiscal quarter.

Table of Contents

4. DETAILS OF CERTAIN BALANCE SHEET COMPONENTS

(in thousands)		March 31, 2006		December 31, 2006
Inventory, net:				
Purchased parts	$	44,750	$	47,059
Work in process		3,786		7,504
Finished goods		72,324		98,317
Less: allowance for excess and obsolete inventory		(14,978)		(18,617)
	$	105,882	$	134,263

The Company records provisions for excess and obsolete inventory based on forecasts of future demand. While management believes the estimates and assumptions underlying its current forecasts are reasonable, there is risk that additional charges may be necessary if current forecasts are greater than actual demand.

Accrued liabilities:				
Employee compensation and benefits	$	19,670	$	22,029
Accrued advertising and sales and marketing		5,084		6,219
Warranty accrual		6,276		6,685
Accrued other		12,051		24,196
	$	43,081	$	59,129

5. PRODUCT WARRANTY OBLIGATIONS

Changes in our warranty obligation, which are included as a component of accrued liabilities on the condensed consolidated balance sheets, are as follows:

(in thousands)		2005		2006
Warranty obligation at March 31	$	5,970	$	6,276
Warranty provision relating to product shipped during the quarter		3,060		3,833
Deductions for warranty claims processed		(2,834)		(3,605)
Warranty obligation at June 30	$	6,196	$	6,504
Warranty provision relating to product shipped during the quarter		4,242		3,654
Deductions for warranty claims processed		(4,260)		(3,594)
Warranty obligation at September 30	$	6,178	$	6,564
Warranty provision relating to product shipped during the quarter		3,236		3,186
Deductions for warranty claims processed		(2,705)		(3,065)
Warranty liability at December 31	$	6,709	$	6,685

Table of Contents

6. ACQUISITIONS

Octiv, Inc.

On April 4, 2005, Plantronics completed the acquisition of 100% of the outstanding shares of Octiv, Inc. (“Octiv”), a privately held company, for up to $7.8 million in cash pursuant to the terms of an Agreement and Plan of Merger dated March 28, 2005. Octiv was merged into the Company subsequent to the acquisition and its name was changed to Volume Logic™, Inc. (“Volume Logic”).

Octiv was founded in 1999 by a group of audio professionals who developed a core audio technology to solve the problem of inconsistent volume levels and sound quality common to many forms of audio delivery. A variety of markets currently use Octiv’s Volume Logic technology, including home entertainment, digital music libraries, professional broadcast and the hearing impaired. The Octiv acquisition provides core technology to improve audio intelligibility in the Company’s products.

The results of operations of Volume Logic have been included in Plantronics’ consolidated results of operations since April 4, 2005. Pro forma results of operations have not been presented because the effect of the acquisition was not material to the results of prior periods presented.

The accompanying financial statements reflect the purchase price of $7.8 million, consisting of cash, and other costs directly related to the acquisition as follows:

(in thousands)

Paid to Octiv	$	7,430
Direct acquisition costs		388
Total cash consideration	$	7,818

The fair values of the intangible assets acquired were estimated with the assistance of an independent valuation firm. The following table presents an allocation of the purchase price based on the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

(in thousands)		**Fair Value at April 4, 2005**
Total cash consideration	$	7,818
Less cash balance acquired		42
		7,776
Allocated to:		
Current assets, excluding cash acquired		102
Property, plant and equipment		72
Existing technologies		4,500
Deferred tax assets		2,970
Current liabilities assumed		(334)
Deferred tax liability		(1,710)
Goodwill	$	2,176

Acquired intangible assets are comprised of existing technologies, which are being amortized over their estimated useful lives of ten years. Goodwill represents the excess of the purchase price over the fair value of tangible and

identified intangible assets acquired and arises as a result of, among other factors, future unidentified new products, new technologies and new customers as well as the implicit value of future cost savings as a result of the combining of entities. The goodwill arising from this acquisition is not deductible for tax purposes under Internal Revenue Code Section 197.

Table of Contents

Altec Lansing Technologies, Inc.

On August 18, 2005, Plantronics completed the acquisition of 100% of the outstanding shares of Altec Lansing Technologies, Inc., a privately-held Pennsylvania corporation for a cash purchase price including acquisition costs of approximately $165 million. The Company paid for the acquisition by drawing down $45.0 million on its credit facility and the remainder was paid using its cash and cash equivalents and short-term investments. Altec Lansing, headquartered in Milford, PA, has a manufacturing plant in Dongguan, China, and sales offices in the U.S., Europe, and Asia. Altec Lansing had approximately 1,400 employees at the date of acquisition.

The results of operations of Altec Lansing have been included in Plantronics' consolidated results of operations subsequent to the acquisition on August 18, 2005.

The purchase price of approximately $165 million consists of cash and other costs directly related to the acquisition as follows:

(in thousands)

Paid to Altec Lansing	$	154,273
Payment of Altec Lansing pre-existing debt		9,906
Direct acquisition costs		977
Total cash consideration	$	165,156

The fair values of the intangible assets acquired were estimated with the assistance of an independent valuation firm. The following table presents an allocation of the purchase price based on the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

(in thousands)		**Fair Value at August 18, 2005**
Total cash consideration	$	165,156
Less cash balance acquired		7,577
		157,579
Allocated to:		
Prepaid compensation		1,067
Inventory		27,524
Other current assets		17,630
Property, plant, and equipment, net		8,290
Identifiable intangible assets		108,300
Deferred tax assets		4,424
Current liabilities assumed		(29,368)
Deferred tax liability		(22,691)
Goodwill	$	42,403

Goodwill was recorded based on the residual purchase price after allocating the purchase price to the fair market value of tangible and intangible assets acquired less liabilities assumed. Goodwill arises as a result of, among other factors, future unidentified new products, new technologies and new customers as well as the implicit value of future cost savings as a result of the combining of entities. The goodwill arising from this acquisition is not deductible for tax purposes under Internal Revenue Code Section 197.

14

Table of Contents

The fair values and estimated useful lives of identifiable intangible assets acquired are as follows:

(in thousands)		Fair Value	Amortization Period
Existing technology	$	25,000	6 years
OEM relationships		700	7 years
Customer relationships		17,600	8 years
Trade name - inMotion		5,000	8 years
Trade name - Altec Lansing		59,100	Not amortized
In-process technology		900	Fully expensed in the second quarter of Fiscal 2006
Total	$	108,300	

Existing technology represents audio products that had been introduced into the market, were generating revenue and/or had reached technological feasibility as of the close of the transaction. The value was calculated based on the present value of the future estimated cash flows derived from this technology applying a 10% discount rate. Existing technology is estimated to have a useful life of six years and is being amortized on a straight-line basis to cost of revenues.

The fair value of customer relationships with OEMs and non-OEMs, which includes major retailers and distributors, was calculated based on the present value of the future estimated cash flows that can be attributed to the existing OEM and non-OEM customer relationships applying a 19% discount rate. Based on historical attrition rates and technological obsolescence, the useful life of the customer relationships was estimated to be seven years for OEM customer relationships and eight years for non-OEM customer relationships and is being amortized on a straight-line basis to selling, general and administrative expense.

The value of the trade name "inMotion," was calculated based on the present value of the capitalized royalties saved on the use of the inMotion trade name applying a 12% discount rate. The inMotion trade name is relatively new and relates to specific niches of the portable audio market. Based on product life cycles, history relating to the category of products for which the inMotion brand is utilized, and similar product trademarks within the retail industry, the estimated remaining useful life was determined to be eight years and is being amortized on a straight-line basis to selling, general, and administrative expense.

The value of the trade name, "Altec Lansing," was also calculated based on the present value of the capitalized royalties saved on the use of the Altec Lansing trade name applying a 12% discount rate. Considering the recognition of the brand, its long history, and management's intent to use the brand indefinitely, the remaining useful life of the Altec Lansing name was determined to be indefinite and is being treated as an indefinite-lived asset in accordance with SFAS 142.

In-process technology involves products which fall under the definitions of research and development as defined by SFAS No. 2, "Accounting for Research and Development Costs." Altec Lansing's in-process technology products were at a stage of development that required further research and development to reach technological feasibility and commercial viability. The fair value was calculated based on the present value of the future estimated cash flows applying a 15% discount rate, and adjusted for the estimated cost to complete. Because the in-process technology, which has been valued at $0.9 million, was not yet complete, there was risk that the developments would not be completed; therefore, this amount was immediately expensed at acquisition to research, development and engineering

expense.

Table of Contents

7. GOODWILL

The changes in the carrying value of goodwill during the nine months ended December 31, 2006 by segment were as follows:

(in thousands)	Audio Communications Group	Audio Entertainment Group	Consolidated
Balance at March 31, 2006	$ 11,214	$ 63,863	$ 75,077
Carrying value adjustments	-	(827)	(827)
Balance at December 31, 2006	$ 11,214	$ 63,036	$ 74,250

During the nine months ended December 31, 2006, the Company adjusted the fair value of the property, plant and equipment and inventory acquired, and wrote-off an accrual for direct acquisition costs relating to the purchase of Altec Lansing. In addition, as a result of the merger of Altec Lansing into Plantronics in the third quarter of fiscal 2007, Altec Lansing's effective tax rate decreased, resulting in a reduction of deferred tax liabilities that were originally recorded for differences in book and tax bases of acquired intangible assets. These adjustments resulted in a reduction of goodwill of $0.8 million for AEG.

The Company reviews goodwill for impairment annually during the fourth quarter of the fiscal year or more frequently if events or circumstances indicate that an impairment loss may have occurred. During the fourth quarter of fiscal 2006, the Company completed the annual impairment test which indicated that there was no impairment. During the nine months ended December 31, 2006, no events or circumstances triggered an impairment review. The Company will perform its annual goodwill impairment test in the fourth quarter of fiscal 2007. Further, to the extent the annual impairment test does not result in a goodwill impairment, it is possible that an impairment review may be triggered during the next twelve months. However, it is not possible to determine whether, if an impairment review is required, an impairment charge would result or if such charge would be material.

Table of Contents

8. INTANGIBLES

The aggregate amortization expense relating to intangible assets for the three and nine months ended December 31, 2005 was $2.1 million and $4.5 million, respectively. The aggregate amortization expense for the three and nine months ended December 31, 2006 was $2.1 million and $6.2 million, respectively. The following table presents information on acquired intangible assets:

(in thousands)	March 31, 2006			
Intangible assets	Gross Amount	Accumulated Amortization	Net Amount	Amortization Period
Technology	$ 31,500	$ (4,268)	$ 27,232	6-10 years
State contracts	1,300	(789)	511	7 years
Patents	1,420	(674)	746	7 years
Customer relationships	17,600	(1,375)	16,225	8 years
Trademarks	300	(182)	118	7 years
Tradename - inMotion	5,000	(391)	4,609	8 years
Tradename - Altec Lansing	59,100	-	59,100	Indefinite
OEM relationships	700	(63)	637	7 years
Non-compete agreements	200	(170)	30	5 years
Total	$ 117,120	$ (7,912)	$ 109,208	

(in thousands)	December 31, 2006			
	Gross Amount	Accumulated Amortization	Net Amount	Amortization Period
Technology	$ 31,500	$ (7,945)	$ 23,555	6-10 years
State contracts	1,300	(929)	371	7 years
Patents	1,420	(826)	594	7 years
Customer relationships	17,600	(3,025)	14,575	8 years
Trademarks	300	(214)	86	7 years
Tradename - inMotion	5,000	(859)	4,141	8 years
Tradename - Altec Lansing	59,100	-	59,100	Indefinite
OEM relationships	700	(138)	562	7 years
Non-compete agreements	200	(200)	-	5 years
Total	$ 117,120	$ (14,136)	$ 102,984	

Table of Contents

The estimated future amortization expense of purchased intangible assets as of December 31, 2006 is as follows (in thousands):

Fiscal year ending March 31,		**Amount**
Remainder of 2007	$	2,064
2008		8,259
2009		8,105
2010		7,645
2011		7,602
Thereafter		10,209
Total	$	43,884

9. BANK LINE OF CREDIT

Plantronics has a $100 million revolving line of credit and a letter of credit sub-facility. Borrowings under the line of credit are unsecured and bear interest at the London inter-bank offered rate (“LIBOR”) plus 0.75%. The line of credit expires on August 1, 2010.

At March 31, 2006, $22.0 million was outstanding on this line of credit and $2.1 million committed under the letter of credit sub-facility. At December 31, 2006, $6.0 million was outstanding on this line of credit and $1.5 million committed under the letter of credit sub-facility.

Borrowings under the line are subject to certain financial covenants and restrictions that materially limit the Company’s ability to incur additional debt and pay dividends, among other matters. Plantronics is currently in compliance with the covenants under this agreement.

10. FOREIGN CURRENCY TRANSACTIONS

Fair Value Hedges

As of December 31, 2006, the Company had foreign currency forward contracts of €19.3 million and 3.1 million denominated in Euros and Pounds, respectively. These forward contracts hedge against a portion of our foreign currency-denominated receivables, payables and cash balances.

The following table summarizes the Company’s net fair value currency position, and approximate U.S. dollar equivalent, at December 31, 2006 (local currency and dollar amounts in thousands):

	Local Currency		**USD Equivalent**	**Position**	**Maturity**
EUR	19,300	$	25,742	Sell Euro	1 month
GBP	3,100	$	6,136	Sell GBP	1 month

Foreign currency transactions, net of the effect of hedging activity on forward contracts, resulted in a net loss of $0.6 million and $1.7 million in the three and nine months ended December 31, 2005, respectively, and a net gain of $1.0 million and $1.8 million in the three and nine months ended December 31, 2006.

18

Table of Contents

Cash Flow Hedges

As of December 31, 2006, the Company had foreign currency put and call option contracts of €56.4 million and £17.9 million. As of March 31, 2006, the Company had foreign currency put and call option contracts of €45.2 million and £19.6 million. Collectively, the Company's option contracts are collars to hedge against a portion of its forecasted foreign denominated sales.

The following table summarizes Plantronics' cash flow hedging positions:

(in thousands)	Balance Sheets Accumulated Other Comprehensive Income (Loss)		Statements of Operations Net Revenues Three Months Ended December 31,		Statements of Operations Net Revenues Nine Months Ended December 31,	
	March 31, 2006	**December 31, 2006**	**2005**	**2006**	**2005**	**2006**
Realized gain (loss) on closed transactions	$ --	$ --	$ (121)	$ (1,316)	$ (537)	$ (1,730)
Recognized but unrealized gain (loss) on open transactions	1,567	(2,256)	-	-	-	-
	$ 1,567	$ (2,256)	$ (121)	$ (1,316)	$ (537)	$ (1,730)

11. INCOME TAXES

The effective tax rate for the three and nine months ended December 31, 2006, was 17% and 21.1%, respectively, compared to 27% and 29%, respectively, for the same periods a year ago. The effective tax rate is lower than the previous year due to Congress reinstating the Research and Development Tax Credit retroactively to January 1, 2006 during the third quarter of fiscal 2007 and lower U.S. net income which is taxed at higher rates than our foreign net income. The decline in U.S. income is primarily due to the losses of AEG and stock-based compensation expense which is proportionately higher in the U.S. than overseas locations. Our effective tax rate differs from the statutory rate due to the impact of foreign operations taxed at different statutory rates, income tax credits, state taxes, and other factors. Our future quarterly tax rate could be impacted by a shift in the mix of domestic and foreign income; tax treaties with foreign jurisdictions; changes in tax laws in the United States or internationally; a change in our estimates of future taxable income which results in a valuation allowance being required; or a federal, state or foreign jurisdiction's view of tax returns which differs materially from what we originally provided. Currently, we are not able to forecast the tax rate for the fiscal year for both AEG and ACG due to many factors including the product mix, changing market conditions and AEG being a new business for Plantronics in the more volatile retail sector. Accordingly, the tax expense reflected for each quarterly period has been computed on a discrete basis instead of using an annual effective tax rate.

12. COMPUTATION OF EARNINGS PER COMMON SHARE

Basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. Potentially dilutive common shares include outstanding stock options and unvested restricted stock awards, which are reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of

stock-based 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 upon exercise are assumed to be used to repurchase shares.

Table of Contents

The following table sets forth the computation of basic and diluted earnings per share:

(in thousands, except per share data)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006
Net income	$ 25,041	$ 15,190	$ 60,446	$ 40,006
Weighted average shares-basic	46,834	47,409	46,968	47,256
Effect of unvested restricted stock awards	123	8	152	8
Effect of dilutive securities	1,208	505	1,648	676
Weighted average shares-diluted	48,165	47,922	48,768	47,940
Earnings per share-basic	$ 0.53	$ 0.32	$ 1.29	$ 0.85
Earnings per share-diluted	$ 0.52	$ 0.32	$ 1.24	$ 0.83

Weighted average stock options and unvested restricted stock awards to purchase 3.0 million and 2.5 million shares of Plantronics' stock for the three and nine months ended December 31, 2005, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. Weighted average stock options and unvested restricted stock awards to purchase 6.9 million and 5.8 million shares of Plantronics' stock for the three and nine months ended December 31, 2006, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

13. COMPREHENSIVE INCOME

Comprehensive income includes charges or credits to equity that are not the result of transactions with owners. The components of comprehensive income are as follows:

(in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006
Net income	$ 25,041	$ 15,190	$ 60,446	$ 40,006
Unrealized gain (loss) on cash flow hedges, for the three and nine months ended December 31, 2005 and 2006, net of tax	86	(1,579)	5,983	(3,823)
Foreign currency translation gain (loss), for the three and nine months ended December 31, 2005 and 2006	(380)	614	(1,638)	1,930
Unrealized gain on investments, for the three and nine months ended December 31, 2005 and 2006, net of tax	12	-	28	-
Comprehensive income	$ 24,759	$ 14,225	$ 64,819	$ 38,113

Table of Contents

14. SEGMENTS AND ENTERPRISE-WIDE DISCLOSURES

Audio Communications Group

ACG designs, manufactures, markets and sells headsets for business and consumer applications, and other specialty products for the hearing impaired. With respect to headsets, we make products for office and contact center use, for use with mobile and cordless phones, and for use with computers and gaming consoles.

The following table presents net revenues by product group within ACG:

(in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2006	2005	2006
Net revenues from unaffiliated customers:				
Office and Contact Center	$ 114,290	$ 118,280	$ 327,190	$ 348,360
Mobile	29,973	43,080	83,523	112,085
Gaming and Computer Audio	9,419	8,364	27,669	23,380
Other Specialty Products	7,837	6,787	22,346	19,456
	$ 161,519	$ 176,511	$ 460,728	$ 503,281

Audio Entertainment Group

AEG, created as a result of the acquisition of Altec Lansing on August 18, 2005, is engaged in the design, manufacture, sales, marketing and support of audio solutions and related technologies. It offers computer and digital audio systems, digital radio frequency audio systems, and portable audio products as well as headphones and microphones for personal digital media. Major product categories include portable audio, which is defined as all speakers whether AC or battery-powered that work with portable digital players, such as iPod or MP3 players; powered audio, which is defined as self-powered speaker systems used for computers and other multi-media application systems; interactive audio (headsets); and personal audio (headphones). Currently, all the revenues in AEG are derived from Altec Lansing products.

The following table presents revenues by product group within AEG:

(in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2006	2005	2006
Revenues from unaffiliated customers:				
Portable audio	$ 45,904	$ 24,656	$ 58,727	$ 65,095
Powered audio	20,564	17,911	30,182	48,068
Other	3,901	3,195	5,989	8,888
Less revenue reserves	(9,376)	(6,838)	(11,980)	(19,894)
	$ 60,993	$ 38,924	$ 82,918	$ 102,157

AEG currently does not allocate revenue reserves by product category.

Table of Contents

Segment Financial Data

Financial data for each reportable segment for the three and nine months ended December 31, 2005 and 2006 is as follows:

Revenues by Segment

(in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006
Audio Communications Group	$ 161,519	$ 176,511	$ 460,728	$ 503,281
Audio Entertainment Group	60,993	38,924	82,918	102,157
Consolidated net revenues	$ 222,512	$ 215,435	$ 543,646	$ 605,438

Gross Profit by Segment

(in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006
Audio Communications Group	$ 74,921	$ 77,257	$ 216,511	$ 218,836
Audio Entertainment Group	19,105	4,079	24,666	15,861
Consolidated gross profit	$ 94,026	$ 81,336	$ 241,177	$ 234,697

Operating Income (Loss) by Segment

(in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006
Audio Communications Group	$ 25,792	$ 22,855	$ 75,669	$ 64,436
Audio Entertainment Group	9,124	(6,037)	8,795	(16,471)
Consolidated operating income	$ 34,916	$ 16,818	$ 84,464	$ 47,965

The reconciliation of segment information to our consolidated net income is as follows:

(in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006
Total operating income of segments	$ 34,916	$ 16,818	$ 84,464	$ 47,965
Interest and other income (expense), net	(596)	1,493	667	2,745
Income tax expense	(9,279)	(3,121)	(24,685)	(10,704)
Consolidated net income	$ 25,041	$ 15,190	$ 60,446	$ 40,006

Table of Contents

Major Customers

No customer accounted for 10% or more of total net revenues for the three and nine months ended December 31, 2005 and 2006, nor did any one customer account for 10% or more of accounts receivable at March 31, 2006 and December 31, 2006.

Assets by Segment

(in thousands)	March 31, 2006	December 31, 2006
Audio Communications Group	$ 370,874	$ 412,190
Audio Entertainment Group	241,375	229,662
Consolidated assets	$ 612,249	$ 641,852

Geographic Information

For purposes of geographic reporting, revenues are attributed to the geographic location of the sales organization. The following table presents net revenues and long-lived assets by geographic area:

(in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2006	2005	2006
Net revenues from unaffiliated customers:				
United States	$ 139,033	$ 126,177	$ 349,148	$ 375,859
Europe, Middle East and Africa	55,246	56,337	129,821	142,165
Asia Pacific and Latin America	18,883	20,155	45,317	58,328
Canada and other international	9,350	12,766	19,360	29,086
Total international	83,479	89,258	194,498	229,579
	$ 222,512	$ 215,435	$ 543,646	$ 605,438

(in thousands)	March 31, 2006	December 31, 2006
Property, plant and equipment:		
United States	$ 47,360	$ 46,343
China	27,062	28,184
Mexico	11,314	13,493
Other countries	8,138	9,207
	$ 93,874	$ 97,227

Table of Contents

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

CERTAIN FORWARD-LOOKING INFORMATION:

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). In addition, we may from time to time make forward-looking statements. These statements may generally be identified by the use of such words as "expect," "anticipate," "believe," "intend," "plan," "will," or "shall" and similar express the negative of these terms. Such forward-looking statements are based on current expectations and entail various risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of a number of factors, including but not limited to the following: the office, contact center, mobile, computer, residential, entertainment and other specialty product markets not developing as we expect, and the failure to respond adequately to either changes in technology or customer preferences. For a discussion of such factors, this Quarterly Report on Form 10-Q should be read in conjunction with the "Risk Factors" included herein. The following discussions titled, "Results of Operations" and "Financial Condition," should be read in conjunction with those risk factors, the financial statements and related notes included elsewhere herein.

OVERVIEW:

We are a leading worldwide designer, manufacturer, and marketer of lightweight communications headsets, telephone headset systems, and accessories for the business and consumer markets under the Plantronics brand. We are also a leading manufacturer and marketer of high quality computer and home entertainment sound systems, portable audio products, and a line of headsets, headphones, and microphones for personal digital media under our Altec Lansing brand. In addition, we manufacture and market, under our Clarity brand, specialty telephone products, such as telephones for the hearing impaired, and other related products for people with special communication needs. We also provide audio enhancement products to consumers, audio professionals and businesses under our Volume Logic brand.

We ship a broad range of communications products to 64 countries through a worldwide network of distributors, original equipment manufacturers ("OEMs"), wireless carriers, retailers, and telephony service providers. We have well-developed distribution channels in North America, Europe, Australia and New Zealand, where use of our products is widespread. Our distribution channels in other regions of the world are less mature, and while we primarily serve the contact center markets in those regions, we are expanding into the office, mobile and entertainment, digital audio, and specialty telephone markets in additional international locations.

Our overall long-term strategy for ACG is to increase headset adoption in the enterprise markets through the creation of new products that are appealing in functionality and design and combining these products with marketing programs to increase awareness and interest. There is an emerging trend in which communications and entertainment are converging in the wireless market. Through the acquisition of Altec Lansing and the establishment of AEG, we moved closer to attaining our long-term goal of positioning ourselves to produce products that will meet consumer needs in an increasing convergence trend of communications and entertainment. The potential for future growth will depend on our efforts to expand customer awareness and our ability to successfully launch new products.

In the third quarter of fiscal 2007, consolidated net revenues decreased approximately 3%, from $222.5 million in the third quarter of 2006 to $215.4 million in the third quarter of fiscal 2007. The decline was attributable to decreased sales of portable audio products in AEG, partially offset by growth in ACG. Our gross profit as a percent of revenues and our operating income decreased from the third quarter of fiscal 2006, due to lower consolidated revenue, product mix, pricing pressures (especially in our consumer business), increased provision for excess and obsolete inventory and stock compensation charges related to Statement of Financial Accounting Standards 123 (revised) ("SFAS 123

(R)"). The decrease in gross profit as a percent of revenue and operating income was partially offset by increased manufacturing efficiency in ACG as a result of the Company's on-going effort to reduce transformation costs, which are the costs required to transform raw material into finished product. ACG net revenues increased in the third quarter of fiscal 2007 compared to the same quarter a year ago, primarily driven by sales of our *Bluetooth* mobile products and wireless office products. In both the mobile and office markets, the trend towards wireless products contributed significantly to demand but was offset by a decrease of revenue from our corded headsets and lower net revenues from our gaming products and Clarity products. We have experienced substantial growth in our wireless and *Bluetooth*-enabled products compared to the same quarter a year ago, primarily due to the Explorer, Discovery and Voyager suite of *Bluetooth* products. Wireless products continue to represent an opportunity for high growth, both for the office market and for mobile applications. However, the gross margin percentage for wireless products tends to be lower than for corded products. In the office market, the lower gross margins are due to higher costs for the components required to enable wireless communication. In the mobile market, particularly for consumer applications, margins are lower due to the higher cost of the solutions relative to corded products, the level of competition and pricing pressures, and the concentrated industry structure into which we sell.

Table of Contents

The December quarter is traditionally the strongest quarter of the fiscal year for the AEG business which has a heavy consumer, and, therefore, seasonal pattern to its sales; however, while AEG revenues did exhibit this seasonal pattern, revenues were down approximately $22 million from a record $61 million in the prior year quarter due to increased competition and the cumulative reduction of market share in the MP3 accessories market. Moreover, demand for our AEG products which require a long lead time to produce was less than we had been anticipating; therefore, we canceled purchase orders from our suppliers and wrote off excess on-hand inventory which resulted in approximately $3.7 million in charges. We do not expect the AEG operating results to improve until the December quarter of fiscal 2008; however, the Altec Lansing brand remains strong and a product refresh is in progress. As part of our integrated sales team approach, during the fourth quarter of fiscal 2007, we were successful in placing Altec Lansing products with two ACG customers which are new to the AEG business.

We have commenced work on our annual impairment review of goodwill, and, although we do not anticipate that we will be required to record any write down of goodwill or intangibles associated with AEG in the fourth quarter of fiscal 2007, there can be no assurance that there will not be future write downs of goodwill or intangibles if market conditions worsen, our product refresh and launch of new products is not successful or is delayed, or due to other factors. Because we have material amounts of goodwill and intangibles, any significant changes to our future business plans could result in material write offs.

Going forward into the remainder of fiscal 2007, we are focused on the following key initiatives to improve our financial performance and long-term growth:

- ***Bringing advanced technologies to market.*** We expect the trend in which the communications and entertainment spaces are converging in the wireless market to result in a demand for technologies that are simple and intuitive, utilize voice technology, control noise, and rely on miniaturization and power management. We intend to expand our own core technology group and partner with other innovative companies to develop new technologies. Our Volume Logic business provides us with broader technology expertise, expanding beyond voice communications DSP into audio DSP. Our Altec Lansing business manufactures and markets high quality computer and home entertainment sound systems and a line of headsets, headphones and microphones for personal digital media. We believe that bringing our product concepts to market will be more effective if we have an audio brand to stand alongside our voice communications brand, and that as a supplier to key channel partners, we will become a more important supplier if we can satisfy a broader set of audio needs. We expect that the costs related to the expansion of our own core technology group, including Volume Logic, will increase our research, development and engineering expenses for the remainder of the fiscal year.

- ***Continued Integration of Altec Lansing***. The Altec Lansing business is complex, with significant overseas operations. We have evaluated various options in our integration plan to preserve the strengths of the Altec Lansing business model and its success in the retail markets while creating efficiencies and synergies in our combined company, and we are in the process of implementing these plans. We successfully completed the first phase of our systems integration in the third quarter of fiscal 2007. Altec Lansing, with the exception of its manufacturing plant operations, is now on the same ERP system as the rest of Plantronics. As a new acquisition in fiscal 2006, Altec Lansing has been exempt from many of the requirements associated with Sarbanes-Oxley compliance. However, the Altec Lansing operations will be required to be in compliance with these requirements by the end of fiscal 2007. We have been developing and documenting internal controls at Altec Lansing and are now testing the effectiveness of these controls. It is still too early to determine the overall effectiveness of these controls.

Table of Contents

Development and launch of new products. During fiscal 2006 and the first three quarters of fiscal 2007, ACG launched and shipped several new models in our suite of *Bluetooth* products, which included the Discovery 645, Pulsar 260 (in limited regions), Discovery 655, Discovery 665, and the Explorer series 330, 340, and 350. These products have had strong market acceptance, and we expect to see further growth from these new products in the remainder of the fiscal year. Going forward, we plan to continue to develop and enhance functionality on these platforms. In the third quarter of fiscal 2007, ACG launched the CS55H, the CS50 adapted for use in the home or home office; and a new office base, M22, designed for both standard and wideband VoIP phones. AEG launched three new portable products: the iM510, which is a portable speaker system designed specifically for the SanDisk Sansa MP3 player, the M604, a portable speaker system designed specifically for the Microsoft Zune MP3 player, and the T515, a speaker system designed for use with MP3-enabled cellular phones. AEG also introduced a new powered 5.1 surround sound audio system, the VS3251.

Building a consumer product manufacturing infrastructure and reducing manufacturing costs, particularly for our Bluetooth products. The consumer products market is characterized by cost competitiveness resulting in a predominantly China-based manufacturing infrastructure. We believe we have a competitive manufacturing infrastructure for our AEG products which are either manufactured by our plant in Dongguan, China or purchased from predominantly China-based vendors. For our ACG products, in order to gain more flexibility in our supply chain, to better manage inventories and reduce long term costs, we constructed a manufacturing facility and design center in Suzhou, China which was completed and began commercial operations in the fourth quarter of fiscal 2006. We have not yet achieved the full benefit associated with this facility. However, through our expanded presence in China, we were able to negotiate lower component prices.

We have been focused on decreasing manufacturing costs by improving supply chain flexibility, taking advantage of the low manufacturing costs in China, improving the efficiency of transforming raw materials into finished goods, decreasing our logistics costs, improving our design process for product manufacturability, and enhancing tools that support and enable decisions and execution in these areas. We have had some encouraging results from these initiatives in the third quarter of fiscal 2007; however, there can be no assurance that we will be able to succeed in these initiatives. Nonetheless, achieving competitive advantage by reducing our cost structure, particularly in the *Bluetooth* market, is a critical objective for the remainder of fiscal 2007 and beyond.

We intend for the following discussion of our financial condition and results of operations to provide information that will assist in understanding our financial statements. We acquired Altec Lansing on August 18, 2005 at which time we created AEG. Accordingly, the financial results for AEG for the nine months ended December 31, 2005, include only the results of operations for the four and one-half months from the acquisition date of August 18, 2005 through December 31, 2005.

RESULTS OF OPERATIONS:

The following tables set forth, for the periods indicated, the consolidated statements of operations data and data by segment. The financial information and the ensuing discussion should be read in conjunction with the accompanying financial statements and notes thereto.

Table of Contents

($ in thousands)	Three Months Ended				Nine Months Ended			
	December 31, 2005		December 31, 2006		December 31, 2005		December 31, 2006	
Net revenues	$ 222,512	100.0%	$ 215,435	100.0%	$ 543,646	100%	$ 605,438	100.0%
Cost of revenues	128,486	57.7%	134,099	62.2%	302,469	55.6%	370,741	61.2%
Gross profit	94,026	42.3%	81,336	37.8%	241,177	44.4%	234,697	38.8%
Operating expense:								
Research, development and engineering	15,980	7.2%	17,709	8.2%	45,868	8.4%	53,113	8.9%
Selling, general and administrative	43,130	19.4%	46,809	21.7%	110,845	20.4%	136,256	22.5%
Gain on sale of land	-		-	0.0%	-		(2,637)	
Total operating expenses	59,110	26.6%	64,518	29.9%	156,713	28.8%	186,732	30.9%
Operating income	34,916	15.7%	16,818	7.8%	84,464	15.5%	47,965	7.9%
Interest and other income (expense), net	(596)	-0.3%	1,493	0.7%	667	0.1%	2,745	0.5%
Income before income taxes	34,320	15.4%	18,311	8.5%	85,131	15.7%	50,710	8.4%
Income tax expense	9,279	4.2%	3,121	1.4%	24,685	4.5%	10,704	1.8%
Net income	$ 25,041	11.3%	$ 15,190	7.0%	$ 60,446	11.2%	$ 40,006	6.6%

Stock-based compensation expense included in operating results is as follows:

($ in thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2005	December 31, 2006	December 31, 2005	December 31, 2006
Cost of revenues	$ 10	$ 730	$ 20	$ 2,210
Research, development and engineering	-	935	-	2,843
Selling, general and administrative	115	2,576	226	7,564
Stock-based compensation expense included in operating expenses	115	3,511	226	10,407
Total stock-based compensation expense	125	4,241	246	12,617
Income tax benefit on stock-based compensation	-	(1,358)	-	(4,087)
Total stock-based compensation expense, net of tax	$ 125	$ 2,883	$ 246	$ 8,530

Audio Communications Group

($ in thousands)	Three Months Ended	Nine Months Ended

	December 31, 2005		December 31, 2006		December 31, 2005		December 31, 2006	
Net revenues	$ 161,519	100.0%	$ 176,511	100.0%	$ 460,728	100.0%	$ 503,281	100.0%
Cost of revenues	86,598	53.6%	99,254	56.2%	244,217	53.0%	284,445	56.5%
Gross profit	74,921	46.4%	77,257	43.8%	216,511	47.0%	218,836	43.5%
Operating expense:								
Research, development and engineering	13,936	8.6%	15,137	8.6%	41,873	9.1%	45,697	9.1%
Selling, general and administrative	35,193	21.8%	39,265	22.2%	98,969	21.5%	111,340	22.1%
Gain on sale of land	-	0.0%	-	0.0%	-	0.0%	(2,637)	-0.5%
Total operating expenses	49,129	30.4%	54,402	30.8%	140,842	30.6%	154,400	30.7%
Operating income	$ 25,792	16.0%	$ 22,855	12.9%	$ 75,669	16.4%	$ 64,436	12.8%

Table of Contents

Stock-based compensation expense included in operating results is as follows:

($ in thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2005	December 31, 2006	December 31, 2005	December 31, 2006
Cost of revenues	$ 10	$ 713	$ 20	$ 2,176
Research, development and engineering	-	916	-	2,776
Selling, general and administrative	82	2,383	164	7,104
Stock-based compensation expense included in operating expenses	82	3,299	164	9,880
Total stock-based compensation expense	$ 92	$ 4,012	$ 184	$ 12,056

Audio Entertainment Group

($ in thousands)	Three Months Ended				Nine Months Ended			
	December 31, 2005		December 31, 2006		December 31, 2005		December 31, 2006	
Net revenues	$ 60,993	100.0%	$ 38,924	100.0%	$ 82,918	100.0%	$ 102,157	100.0%
Cost of revenues	41,888	68.7%	34,845	89.5%	58,252	70.3%	86,296	84.5%
Gross profit	19,105	31.3%	4,079	10.5%	24,666	29.7%	15,861	15.5%
Operating expense:								
Research, development and engineering	2,044	3.4%	2,572	6.6%	3,995	4.8%	7,416	7.3%
Selling, general and administrative	7,937	13.0%	7,544	19.4%	11,876	14.3%	24,916	24.4%
Total operating expenses	9,981	16.4%	10,116	26.0%	15,871	19.1%	32,332	31.6%
Operating income (loss)	$ 9,124	15.0%	$ (6,037)	-15.5%	$ 8,795	10.6%	$ (16,471)	-16.1%

Stock-based compensation expense included in operating results is as follows:

($ in thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2005	December 31, 2006	December 31, 2005	December 31, 2006
Cost of revenues	$ -	$ 17	$ -	$ 33
Research, development and engineering	-	19	-	67

Selling, general and administrative	33	193	62	461
Stock-based compersation expense included in operating expenses	33	212	62	528
Total stock-based compensation expense	$ 33	$ 229	$ 62	$ 561

28

Table of Contents

NET REVENUES

Audio Communications Group

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Audio Communications Group								
Net revenues from unaffiliated customers:								
Office and Contact Center	$ 114,290	$ 118,280	$ 3,990	3.5%	$ 327,190	$ 348,360	$ 21,170	6.5%
Mobile	29,973	43,080	13,107	43.7%	83,523	112,085	28,562	34.2%
Gaming and Computer Audio	9,419	8,364	(1,055)	-11.2%	27,669	23,380	(4,289)	-15.5%
Other Specialty Products	7,837	6,787	(1,050)	-13.4%	22,346	19,456	(2,890)	-12.9%
Total segment net revenues	$ 161,519	$ 176,511	$ 14,992	9.3%	$ 460,728	$ 503,281	$ 42,553	9.2%

ACG designs, manufactures, markets and sells headsets for business and consumer applications, and other specialty products for select markets. We make products for use with office and contact center phones, mobile and cordless phones, and computers and gaming consoles.

The Office and Contact Center ("OCC") products represent our largest source of revenues while the Mobile products represent our largest unit volumes. Revenues may vary due to the timing of the introduction of new products, seasonality, discounts and other incentives and channel mix. There is a growing trend toward wireless products and a corresponding shift away from our corded products. We have a "book and ship" business model, whereby we ship most orders to our customers within 48 hours of receipt of those orders. Thus, we cannot rely on the level of backlog to provide visibility into potential future revenues.

For the three and nine months ended December 31, 2006, compared to the same periods a year ago, our growth in net revenues was derived primarily from revenues from our Office and Contact Center products as well as our Mobile products.

Office and Contact Center

For the three and nine months ended December 31, 2006, compared to the same periods a year ago, our growth in Office and Contact Center net revenues was primarily due to increased sales of the following major products:

- office wireless headsets, particularly our CS50, CS55 and the CS60 for office phones;
- the Plantronics Voyager 510S, a wireless headset using *Bluetooth* technology for use with office phones; and
- the CS70, a wireless headset which was launched in the first quarter of fiscal 2007 and the Supra Plus Wireless headset, which was launched in the fourth quarter of fiscal 2006.

Net revenues from our office wireless systems (CS50/60/70, Voyager 510s, and SupraPlus) increased approximately 28% in the third quarter of fiscal 2007 compared to the prior year quarter, again reflecting the trend toward wireless products. Sales of professional grade corded headsets for office and contact center applications decreased 9.7% compared to the same quarter a year ago. For the nine months ended December 31, 2006, wireless office systems increased $39.9 million or 38.5% from $103.6 million to $143.5 million.

While we have been anticipating the trend toward wireless products, the growth rate slowed in the U.S. during the third quarter of fiscal 2007, but increased in EMEA.

Mobile

For the three and nine months ended December 31, 2006, compared to the same periods a year ago, Mobile net revenues increased primarily due to net revenues from our *Bluetooth* products, which grew 60% or $14 million and 89% or $43.5 million, in the three and nine month periods primarily due to the following:

Table of Contents

— increased adoption of *Bluetooth* products in the market; and

— the introduction of our new suite of *Bluetooth* headsets in fiscal 2006 and 2007 including:

- o Explorer 320, 330, 340, and 350;
- o Discovery 640, 645, 655, and 665;
- o Voyager 510; and
- o the Pulsar headset family.

The increase in net revenues from our *Bluetooth* products was partially offset by a decline in sales of corded products of $0.9 million and $14.9 million in the three and nine month periods, respectively. The *Bluetooth* market is characterized by significant growth and represents our best opportunity for unit volume increases; however, this market is characterized by intense price competition.

Gaming and Computer Audio

For the three and nine months ended December 31, 2006, compared to the same periods one year ago, Gaming and Computer Audio net revenues decreased approximately 11% primarily due to competitive pressure in Europe. For the nine months ended December 31, 2006, Gaming and Computer Audio net revenues also decreased due to the end of life of an OEM headset in the second quarter of fiscal 2006, and the transition in Europe from products not in compliance with the Restriction on Hazardous Substances Directive ("RoHS") and our older product lines, to RoHS compliant products and our new lineup of .Audio and DSP computer headsets.

Other Specialty Products

For the three and nine months ended December 31, 2006, compared to the same periods one year ago, Other Specialty Products net revenues decreased primarily due to decreased sales of our Clarity products to two major retail customers, who decreased the number of product models which they carry. In addition, sales of Clarity products to state government programs were relatively flat.

Domestic and International

In the third quarter of fiscal 2007, compared to the same quarter one year ago, international revenues as a percentage of total ACG net revenues, increased from approximately 39% to 41%. We experienced significant growth of approximately 20% in our Asia Pacific Latin America region ("APLA"), which occurred across all major product groups, but was particularly strong in Bluetooth mobile and OCC wireless office headsets. Net revenues in our Europe, Middle East, and Africa ("EMEA") region were up $2.7 million or 6% when comparing the year over year quarters mostly due to strong demand for OCC wireless office system and Bluetooth mobile products. Domestic revenue increased $7.2 million or 7% mostly from increased sales of Bluetooth mobile headsets. International revenues as a percentage of total ACG net revenues for the nine month period ended December 31, 2006, was 36%, consistent with the same period a year ago.

Table of Contents

Audio Entertainment Group

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Audio Entertainment Group								
Revenues from unaffiliated customers:								
Portable audio	$ 45,904	$ 24,656	$ (21,248)	-46.3%	$ 58,727	$ 65,095	$ 6,368	10.8%
Powered audio	20,564	17,911	(2,653)	-12.9%	30,182	48,068	17,886	59.3%
Other	3,901	3,195	(706)	-18.1%	5,989	8,888	2,899	48.4%
Less revenue reserves	(9,376)	(6,838)	2,538	-27.1%	(11,980)	(19,894)	(7,914)	66.1%
Total segment net revenues	$ 60,993	$ 38,924	$ (22,069)	-36.2%	$ 82,918	$ 102,157	$ 19,239	23.2%

AEG is engaged in the design, manufacture, sales, marketing and support of audio solutions and related technologies. It offers computer and digital audio systems, digital radio frequency audio systems, and portable audio products as well as headphones and microphones for personal digital media. Major product categories include portable audio, which is defined as all speakers whether AC or battery-powered that work with portable digital players, such as iPod or MP3 players; powered audio, which is defined as self-powered speaker systems used for computers and other multi-media application systems; and interactive audio (headsets) and personal audio (headphones). Currently, all the revenues in AEG are derived from our Altec Lansing products.

Altec Lansing products are primarily consumer goods sold in the retail channel and sales are highly seasonal. The strongest revenues typically occur in the December quarter due to the holiday period. For the three months ended December 31, 2006 compared to the same quarter one year ago, Portable Audio net revenues decreased by approximately 46%, primarily as a result of intense competition in the MP3 accessories market, particularly in the U.S., and an overall reduction of market share for the MP3 accessories market. There were also price reductions in the Powered Audio products, particularly in Europe.

For the nine months ended December 31, 2006, compared to the same period one year ago, AEG net revenues increased primarily due to the fact that there were nine full months of net revenues for the period ended December 31, 2006 compared to four and a half months of net revenues for the comparable period one year ago. We acquired Altec Lansing in August 2005.

For the three months ended December 31, 2006, international net revenues represented 46% of net revenues for AEG, compared to 33% for the same period one year ago. For the nine months ended December 31, 2006, international net revenues represented 45% of net revenues for AEG, compared to 35% for the same period one year ago.

We anticipate that there will be a decrease in net revenues for the March quarter, reflecting a seasonal decline. In addition, we expect that the intense competition in the U.S. market for iPOD accessories which negatively impacted our December quarter results will continue into the March quarter. We expect that we will continue to respond to the pricing pressures through promotional allowances and credits, which will negatively impact net revenues.

Revenues may vary due to seasonality, timing of the introduction of new products, discounts and other incentives, channel mix, and new competitors entering these markets. Other trends which will also impact our Audio Entertainment Group revenues include growth of the MP3 player market, and our ability to successfully attach to new generations of MP3 players and to develop products which keep up with the rapidly-developing portable and personal audio markets.

Table of Contents

Consolidated

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Consolidated By Geographic Region								
United States	$ 139,033	$ 126,177	$ (12,856)	-9.2%	$ 349,148	$ 375,859	$ 26,711	7.7%
Europe, Middle East and Africa	55,246	56,337	1,091	2.0%	129,821	142,165	12,344	9.5%
Asia Pacific and Latin America	18,883	20,155	1,272	6.7%	45,317	58,328	13,011	28.7%
Canada and other international	9,350	12,766	3,416	36.5%	19,360	29,086	9,726	50.2%
Total international	83,479	89,258	5,779	6.9%	194,498	229,579	35,081	18.0%
Total consolidated net revenues	$ 222,512	$ 215,435	$ (7,077)	-3.2%	$ 543,646	$ 605,438	$ 61,792	11.4%

In the three months ended December 31, 2006, compared to the same period a year ago, the decrease in consolidated net revenues is primarily attributable to a decline in portable audio products in our AEG segment offset by growth in our *Bluetooth* and wireless office products in the ACG segment. The wireless market, coupled with a trend toward the convergence of communications and entertainment, continues to grow, with net revenues up in the three and nine month periods of fiscal 2007 of approximately 35% and 46%, respectively, compared to the same periods a year ago. In addition, our total net revenues from wireless products for the three and nine month periods of fiscal 2007 accounted for approximately 53% and 50%, respectively, of our total ACG net revenues compared to approximately 43% and 37%, respectively, a year ago.

In the nine months ended December 31, 2006, compared to the same period one year ago, the increase in consolidated net revenues is primarily attributable to a full nine months of net revenues from the AEG segment compared to only four and a half months of net revenues from the AEG segment in the comparable period one year ago, as we acquired Altec Lansing in August, 2005. In addition, there was growth in the ACG wireless net revenues of 46% compared to the same period one year ago. Net revenues from wireless products were 50% of total ACG net revenues compared to approximately 37% a year ago.

Consolidated net revenues from international sales, as a percentage of total net revenues were 41% and 38%, respectively, for the three and nine months ended December 31, 2006, compared to 38% and 36%, respectively, for the same periods a year ago.

COST OF REVENUES AND GROSS PROFIT

Cost of revenues consists primarily of direct manufacturing and contract manufacturer costs, including material and direct labor, our manufacturing organization, tooling, depreciation, warranty expense, reserves for excess and obsolete inventory, freight expense, royalty payments and an allocation of overhead expenses, including facilities and IT costs.

Table of Contents

Audio Communications Group

($ in thousands)	Three Months Ended December 31, 2005	2006	Increase (Decrease)		Nine Months Ended December 31, 2005	2006	Increase (Decrease)	
Audio Communications Group								
Net revenues	$ 161,519	$ 176,511	$ 14,992	9.3%	$ 460,728	$ 503,281	$ 42,553	9.2%
Cost of revenues	86,598	99,254	12,656	14.6%	244,217	284,445	40,228	16.5%
Segment gross profit	$ 74,921	$ 77,257	$ 2,336	3.1%	$ 216,511	$ 218,836	$ 2,325	1.1%
Segment gross profit %	46.4%	43.8%	(2.6ppt.)		47.0%	43.5%	(3.5ppt.)	

For the three and nine months ended December 31, 2006, compared to the same periods a year ago, gross profit as a percent of net revenues decreased 2.6 and 3.5 percentage points, respectively, primarily due to the following:

— a product mix shift toward consumer products, which have lower gross margins than many of our office products, coupled with continued pricing pressure, especially on consumer *Bluetooth* headsets. However, compared to the year ago periods, gross margins for *Bluetooth* products have improved.

— requirements for excess and obsolete inventory increased due to unanticipated shifts in demand and the cost of our warranty obligation was higher due in part to increases in sales and in part to a mix shift toward consumer products which have a higher rate of return under warranty.

— an increase in capacity in our production facilities in Suzhou, China and Tijuana, Mexico, in preparation for anticipated future demand, especially for our *Bluetooth* products.

— stock-based compensation charges for the three and nine months ended December 31, 2006 of $0.7 million and $2.2 million, respectively.

These negative factors were partially offset by the favorable impact of better component pricing which we were able to obtain through our expanded presence in China, better factory utilization at our plant in Tijuana, Mexico and improvements in manufacturing yields.

Product mix has a significant impact on gross profit as there can be significant variances between our higher and our lower margin products. Therefore, small variations in product mix, which can be difficult to predict, can have a significant impact on gross profit. We expect gross profit pressures from the factors mentioned above as well as from competitive pricing to continue for the near future. While we are focused on actions to improve our gross profit through supply chain management, improvements in product launches, increasing the utilization of manufacturing capacity, particularly in our new facility in China, and improving the effectiveness of our marketing programs, there can be no assurance that these actions will be successful.

Audio Entertainment Group

Three Months Ended	Increase	Nine Months Ended December 31,	Increase

($ in thousands)	December 31, 2005	2006	(Decrease)		2005	2006	(Decrease)	
Audio Entertainment Group								
Net revenues	$ 60,993	$ 38,924	$ (22,069)	-36.2%	$ 82,918	$ 102,157	$ 19,239	23.2%
Cost of revenues	41,888	34,845	(7,043)	-16.8%	58,252	86,296	28,044	48.1%
Segment gross profit	$ 19,105	$ 4,079	$ (15,026)	-78.6%	$ 24,666	$ 15,861	$ (8,805)	-35.7%
Segment gross profit %	31.3%	10.5%	(20.8ppt.)		29.7%	15.5%	(14.2ppt.)	

33

Table of Contents

For the three and nine months ended December 31, 2006, compared to the same periods a year ago, gross profit as a percent of net revenues decreased primarily due to the following:

— competitive pricing pressures which resulted in significant discounting and price protection programs, particularly for the Portable product line;

— a shift in product mix. In the third quarter of fiscal 2007, we sold a higher proportion of Powered products than in the same quarter of fiscal 2006. Powered products carry lower gross margins than Portable products;

— increased provisions for excess and obsolete inventory and adverse purchase commitments due to unanticipated shifts in demand for our products; and

— increased freight expense, in part due to surcharges related to rising fuel costs.

In absolute dollars, gross profit for the nine month period ended December 31, 2006, increased as a result of the acquisition of Altec Lansing on August 18, 2005, resulting in only four and one-half months of operations in the comparative prior year period. Gross profit may vary depending on the product mix, competitive pricing pressures, amount of excess and obsolete inventory charges, adverse purchase commitments, return rates, the amount of product sold for which royalties are required to be paid, the rate at which royalties are calculated, and other factors.

Consolidated

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Consolidated								
Net revenues	$ 222,512	$ 215,435	$ (7,077)	-3.2%	$ 543,646	$ 605,438	$ 61,792	11.4%
Cost of revenues	128,486	134,099	5,613	4.4%	302,469	370,741	68,272	22.6%
Consolidated gross profit	$ 94,026	$ 81,336	$ (12,690)	-13.5%	$ 241,177	$ 234,697	$ (6,480)	-2.7%
Consolidated gross profit %	42.3%	37.8%	(4.5ppt.)		44.4%	38.8%	(5.6ppt.)	

For the three and nine months ended December 31, 2006, the decrease in consolidated gross profit was primarily attributable to the following:

— decreased net revenues in AEG due to increased price competition, loss of market share, and pricing incentives;

— a shift in product mix within both ACG and AEG;

— increased provisions for excess and obsolete inventory and adverse purchase commitments due to unanticipated shifts in demand for AEG products; and

— the impact of stock-based compensation charges of $0.7 million and $2.2 million, respectively.

Our manufacturing facility in Suzhou, China began production in the fourth quarter fiscal 2006. As a result, depreciation expense associated with the facility commenced in that quarter, which has caused and will continue to cause, higher costs in the short run and will negatively affect our gross profit. Once our manufacturing facility in Suzhou, China is running at full utilization, we expect that this facility, assuming other factors remain constant, will reduce manufacturing costs and thus improve gross profit.

Gross profit margin may vary depending on the product mix, customer mix, channel mix, amount of excess and obsolete inventory charges, changes in our warranty repair costs or return rates, royalty payments, competitive pricing and discounts or customer incentives, and other factors.

Table of Contents

RESEARCH, DEVELOPMENT AND ENGINEERING

Research, development and engineering costs are expensed as incurred and consist primarily of compensation costs, outside services, including legal fees associated with protecting our intellectual property, expensed materials, depreciation and an allocation of overhead expenses, including facilities, human resources, and information technology costs.

Audio Communications Group

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Audio Communications Group								
Research, development and engineering	$ 13,936	$ 15,137	$ 1,201	8.6%	$ 41,873	$ 45,697	$ 3,824	9.1%
% of total segment net revenues	8.6%	8.6%	(0.0ppt.)		9.1%	9.1%	0.0ppt. %	

Research, development and engineering expense of ACG reflects our commitment to developing new products for the markets we serve.

For the three and nine months ended December 31, 2006 compared to the same periods a year ago, research, development and engineering expenses were higher primarily due to the following:

— stock-based compensation charges of approximately $0.9 million and $2.8 million, respectively; and

incremental growth in our development activity at our design centers in Mexico and China. The costs at these design centers are primarily associated with payroll and payroll-related costs due to higher headcount. Our strategy is to have project execution, build, and verification processes co-located with the teams that are responsible for the manufacturing in order to improve execution, efficiency, and cost effectiveness.

These increases were partially offset by decreased new product development spending on outside services, materials and design verification tooling and lower compensation due to reduced headcount.

Audio Entertainment Group

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Audio Entertainment Group								
	$ 2,044	$ 2,572	$ 528	25.8%	$ 3,995	$ 7,416	$ 3,421	85.6%

Research, development and engineering						
% of total segment net revenues	3.4%	6.6%	3.3 ppt.	4.8%	7.3%	2.4 ppt.

For the three months ended December 31, 2006 compared to the same period a year ago, the increase in research, development and engineering expense primarily reflected costs incurred for development of future product lines and to maintain current technology. The costs reflected slightly increased headcount in research and development, along with increased spending on external design firms and consultants. In the third quarter of fiscal 2007, AEG launched three new portable products: the iM510, which is a portable speaker system designed specifically for the SanDisk Sansa, the M604, a portable speaker system designed for the Microsoft Zune, and the T515 a speaker system for use with MP3 enabled cellular phones. AEG also introduced a new powered audio system, the VS3251, a 5.1 surround sound speaker system.

Table of Contents

For the nine months ended December 31, 2006, compared to the same period one year ago, the increase in research, development and engineering expense primarily reflected nine full months of expenses compared to only four and one half months of expenses for the comparable period one year ago as Altec Lansing was acquired in August 2005. In addition, expenses have increased at our Washington state facility.

Consolidated

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Consolidated								
Research, development and engineering	$ 15,980	$ 17,709	$ 1,729	10.8%	$ 45,868	$ 53,113	$ 7,245	15.8%
% of total consolidated net revenues	7.2%	8.2%	1.0 ppt.		8.4%	8.9%	0.3 ppt.	

For the three months ended December 31, 2006 compared to the same period a year ago, the increase in research, development and engineering expense was primarily attributable to costs associated with our ACG design centers in Tijuana, Mexico and Suzhou, China, the impact of the stock-based compensation charges, and a slight increase in expenses associated with AEG.

For the nine months ended December 31, 2006, compared to the same period one year ago, the increase in research, development and engineering expense was attributable to expanding our design centers in Tijuana, Mexico and Suzhou, China and to the AEG expenses reflecting nine full months of expenses compared to only four and one half months of expenses for the comparable period one year ago as Altec Lansing was acquired in August 2005.

We expect that our research, development and engineering expenses will increase in the remainder of fiscal 2007 in the following areas:

- continued expenditures for wireless office and wireless mobile products, gaming products and the home and home office products; and
- increased expenditures related to revitalizing our AEG product line up.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expense consists primarily of compensation costs, including commissions, marketing costs, professional service fees, outside consultants, litigation costs, bad debt expense and allocation of overhead expenses, including facilities, human resources and information technology costs.

Audio Communications Group

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)

Audio Communications Group								
Selling, general and administrative	$ 35,193	$ 39,265	$ 4,072	11.6%	$ 98,969	$ 111,340	$ 12,371	12.5%
% of total segment net revenues	21.8%	22.2%	0.5 ppt.		21.5%	22.1%	0.7 ppt.	

36

Table of Contents

For the three and nine months ended December 31, 2006, compared to the same periods a year ago, selling, general and administrative expenses increased due to the following:

— stock-based compensation charges of $2.4 million and $7.1 million, respectively;
— higher headcount in the marketing function;
— an increase in sales expenses attributable to a larger global sales presence and an increase in sales-related compensation; and
— an increase in general and administrative expenses due to higher headcount, depreciation, and cost of outside providers for legal, accounting and auditing services.

The increases in spending were partially offset by a decrease in marketing program and advertising expenses because we spent less on the fiscal 2007 wireless U.S. office demand generation programs compared to the fiscal 2006 national branding and advertising campaign.

Audio Entertainment Group

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Audio Entertainment Group								
Selling, general and administrative	$ 7,937	$ 7,544	$ (393)	-5.0%	$ 11,876	$ 24,916	$ 13,040	109.8%
% of total segment net revenues	13.0%	19.4%	6.4 ppt.		14.3%	24.4%	10.1 ppt.	

For the three months ended December 31, 2006, compared to the same period a year ago, the decrease in selling, general and administrative expenses primarily reflected decreased commission and bonus costs associated with lower net revenues and profits, partially offset by increased marketing costs associated with trade shows and stock based compensation expense recognized in the December 2006 quarter.

For the nine months ended December 31, 2006, compared to the same period a year ago, the increase in selling, general and administrative expenses primarily reflected the following:

— nine full months of expenses compared to only four and a half months of expenses for the comparable period one year ago as Altec Lansing was acquired in August 2005;
— increased marketing costs associated with trade shows; and
— stock-based compensation charges.

These increases were partially offset by decreased bonus costs associated with lower net revenues and profits.

Consolidated

Three Months Ended December 31,	Increase	Nine Months Ended December 31,	Increase

($ in thousands)	2005	2006	(Decrease)		2005	2006	(Decrease)	
Consolidated								
Selling, general and administrative	$ 43,130	$ 46,809	$ 3,679	8.5%	$ 110,845	$ 136,256	$ 25,411	22.9%
% of total consolidated net revenues	19.4%	21.7%	2.3 ppt.		20.4%	22.5%	2.1 ppt.	

For the three months ended December 31, 2006, compared to the same period a year ago, the increase in consolidated selling, general and administrative expenses can be attributed to the following:

— stock-based compensation charges of $2.6 million;

— higher headcount in the marketing function in ACG;

~~an~~ increase in sales expenses attributable to a larger global sales presence and an increase in sales-related compensation for ACG; and

~~an~~ increase in general and administrative expenses due to higher headcount, depreciation, and costs of outside providers for legal, accounting, and auditing services.

37

Table of Contents

These increases are partially offset by a decrease in AEG commissions and bonuses due to lower AEG net revenues and profits.

For the nine months ended December 31, 2006, compared to the same period a year ago, the increase in consolidated selling, general and administrative expenses can be attributed to the following:

— nine full months of AEG expenses compared to only four and a half months of expenses for the comparable period one year ago as Altec Lansing was acquired in August, 2005;
— stock-based compensation charges of $7.6 million, and
— higher compensation-related charges and costs associated with a larger global sales presence.

We anticipate our consolidated selling, general and administrative expenses will continue to increase for the remainder of fiscal 2007. Due to the softening in demand growth, we are controlling discretionary spending and will be monitoring the amounts spent on the office demand generation campaign based upon current and forecasted results of operations.

GAIN ON SALE OF LAND

During the first quarter of fiscal 2007, we sold a parcel of land in Frederick, Maryland, for net proceeds of $2.7 million and recorded a gain of $2.6 million from the sale of this property.

TOTAL OPERATING EXPENSES AND OPERATING INCOME

Audio Communications Group

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Audio Communications Group								
Operating expense	$ 49,129	$ 54,402	$ 5,273	10.7%	$ 140,842	$ 154,400	$ 13,558	9.6%
% of total segment net revenues	30.4%	30.8%	0.4 ppt.		30.6%	30.7%	0.1 ppt.	
Operating income	$ 25,792	$ 22,855	$ (2,937)	-11.4%	$ 75,669	$ 64,436	$ (11,233)	-14.8%
% of total segment net revenues	16.0%	12.9%	(3.0)ppt.		16.4%	12.8%	(3.7)ppt.	

For the three and nine months ended December 31, 2006, compared to the same periods one year ago, operating income decreased. The decrease in operating income reflected the reduced gross profit percentages and higher operating expenses, primarily resulting from stock-based compensation charges of $4.0 million and $12.1 million in the three and nine month periods, respectively. The increased expenses in the nine month period were partially offset by a $2.6 million pre-tax gain in the first quarter of fiscal 2007 due to the sale of land in Frederick, Maryland.

Table of Contents

We believe that our operating margins will be impacted by the recent trends in our business and industry, including a downward trend on revenues derived from professional grade corded headsets, the rapid growth of the *Bluetooth* consumer market with continued intense price competition and other factors such as generally shorter product life cycles.

Audio Entertainment Group

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Audio Entertainment Group								
Operating expense	$ 9,981	$ 10,116	$ 135	1.4%	$ 15,871	$ 32,332	$ 16,461	103.7%
% of total segment net revenues	16.4%	26.0%	9.6 ppt.		19.1%	31.6%	12.5 ppt.	
Operating income (loss)	$ 9,124	$ (6,037)	$ (15,161)	-166.2%	$ 8,795	$ (16,471)	$ (25,266)	-287.3%
% of total segment net revenues	15.0%	-15.5%	(30.5) ppt.		10.6%	-16.1%	(26.7) ppt.	

In the three and nine months ended December 31, 2006, the operating losses reflected reduced gross profit percentages compared to the prior year and higher operating expenses both in dollar terms and as a percentage of revenues. Results for fiscal 2006 include the period following the acquisition on August 18, 2005. The third quarter of fiscal 2007 includes $1.7 million of non-cash charges related to the amortization of acquired intangibles. These charges include $1.0 million in cost of revenues relating to the amortization of acquired technology assets and $0.7 million recorded under selling, general and administrative expense representing primarily the amortization of acquired intangibles, excluding technology assets. These non-cash purchase accounting charges will continue for the next 7 to 9 years.

Consolidated

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Consolidated								
Operating expense	$ 59,110	$ 64,518	$ 5,408	9.1%	$ 156,713	$ 186,732	$ 30,019	19.2%
% of total consolidated net revenues	26.6%	29.9%	3.4 ppt.		28.8%	30.9%	2.1 ppt.	

Operating income	$ 34,916	$ 16,818	$ (18,098)	-51.8%	$ 84,464	$ 47,965	$ (36,499)	-43.2%
% of total consolidated net revenues	15.7%	7.8%	(7.9) ppt.		15.5%	7.9%	(7.7) ppt.	

In the three and nine months ended December 31, 2006, compared to the same periods a year ago, our operating income decreased primarily due to lower gross profit percentages, the impact of stock compensation charges, and the operating loss associated with the acquired Audio Entertainment business.

We believe that our operating margins will be impacted by product mix shifts, stock-based compensation, and the acquisition of Altec Lansing, including non-cash charges associated with purchase accounting, product life cycles, and seasonality.

39

Table of Contents

INTEREST AND OTHER INCOME (EXPENSE), NET

Consolidated

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Interest and other income (expense), net	$ (596)	$ 1,493	$ 2,089	-350.5%	$ 667	$ 2,745	$ 2,078	311.5%
% of total net revenues	-0.3%	0.7%	1.0 ppt.		0.1%	0.5%	0.3 ppt.	

For the three months ended December 31, 2006, compared to the same period one year ago, the increase in net interest and other income primarily reflected higher net foreign exchange gains of $1.7 million. For the nine months ended December 31, 2006, the increase in interest and other income primarily reflected higher net foreign exchange gains of $1.8 million in the current period, compared to a $1.7 million loss in the same period one year ago offset by a reduction in net interest income of $1.3 million.

INCOME TAX EXPENSE

Consolidated

($ in thousands)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2006	Increase (Decrease)		Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Increase (Decrease)	
Income before income taxes	$ 34,320	$ 18,311	$ (16,009)	-46.6%	$ 85,131	$ 50,710	$ (34,421)	-40.4%
Income tax expense	9,279	3,121	(6,158)	-66.4%	24,685	10,704	(13,981)	-56.6%
Net income	$ 25,041	$ 15,190	$ (9,851)	-39.3%	$ 60,446	$ 40,006	$ (20,440)	-33.8%
Effective tax rate	27.0%	17.0%	(10.0) ppt.		29.0%	21.1%	(7.9) ppt.	

For the three and nine months ended December 31, 2006, compared to the same periods a year ago, income tax expense was lower than the previous year due to Congress reinstating the Research and Development Tax Credit retroactively to January 1, 2006 during the third quarter of fiscal 2007 and lower U.S. pre-tax net income which is taxed at higher rates than our foreign net income. The decline in U.S. income is primarily due to the losses of AEG and stock-based compensation expense which is proportionately higher in the U.S. than overseas locations.

Overall, the rate decreased from 27.0% in the third quarter of fiscal 2006 to 17% in the third quarter of fiscal 2007 and from 29% for the nine months ended December 31, 2005 to 21.1% for the nine months ended December 31, 2006. Our effective tax rate differs from the statutory rate due to the impact of foreign operations taxed at different statutory

rates, income tax credits, state taxes, and other factors. Our future quarterly tax rate could be impacted by a shift in the mix of domestic and foreign income; tax treaties with foreign jurisdictions; changes in tax laws in the United States or internationally; a change in our estimates of future taxable income which results in a valuation allowance being required; or a federal, state or foreign jurisdiction's view of tax returns which differs materially from what we originally provided. Currently, we are not able to forecast the tax rate for the fiscal year for both AEG and ACG due to many factors including the product mix, changing market conditions and AEG being a new business for Plantronics in the more volatile retail sector. Accordingly, the tax expense reflected for each quarterly period has been computed on a discrete basis instead of using an annual effective tax rate.

Table of Contents

FINANCIAL CONDITION:

The table below provides selected condensed consolidated cash flow information for the periods presented:

($ in thousands)	Nine Months Ended December 31, 2005	2006
Cash provided by operating activities	$ 46,525	$ 28,164
Cash used for capital expenditures	(31,350)	(18,739)
Cash used for acquisitions	(165,020)	-
Cash provided by other investing activities	164,416	10,696
Cash used for investing activities	(31,954)	(8,043)
Cash used for financing activities	$ (33,748)	$ (21,157)

Cash Flows From Operating Activities

Cash flows from operating activities are the principal source of cash for us.

In the nine months ended December 31, 2006, compared to the same period a year ago, operating cash flow decreased by $18.4 million. The major decreases include the following:

- increases in net inventory balances of $28.4 million, primarily related to finished goods for our newly-introduced Bluetooth and wireless office products. Inventory increased due to anticipated future demand and due to a conscious decision to increase safety stock. Average annual inventory turns decreased from 4.8 in the third quarter of fiscal 2006 to 4.0 in the third quarter of fiscal 2007; and

- net income of $40 million for the nine months ended December 31, 2006 compared to $60.4 million for the same period last year.

These decreases to operating cash flow were partially offset by the following:

- a $12.6 million non-cash stock-based compensation charge was recorded under the provisions of SFAS 123(R);

- an increase of $16.1 million in accrued liabilities as a result of an increase in accruals for employee benefits, increased audit and accounting fees, and increased accruals related to foreign exchange hedging activities; and

- an increase in non-cash charges for depreciation and amortization, which increased to $21.8 million in the nine months ended December 31, 2006 compared to $16.1 million in the same period last year. As a result of the acquisition of Altec Lansing in August 2005, we acquired additional property, plant and equipment resulting in more depreciation, and we acquired significant intangible assets resulting in more amortization. Finally, we placed additional fixed assets into production in our new manufacturing plant in Suzhou, China and in our new research and development center in Tijuana, Mexico, and completed certain building improvements in our Santa Cruz, California headquarters facility.

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors including fluctuations in our net revenues and operating results, collection of accounts receivable, changes to

inventory levels and timing of payments

41

Table of Contents

Cash Flows From Investing Activities

In the nine months ended December 31, 2006, we used $8.0 million in cash for investing activities compared to $32.0 million of cash used in the same period a year ago.

Cash used in investing activities in the nine months ended December 31, 2006 was primarily attributable to $18.7 million in capital expenditures, including building improvements at our corporate headquarters, expansion of a warehouse facility in Milford, Pennsylvania, and the purchase of machinery and equipment, tooling, computers, and software. We also had net proceeds of $8.0 million from short-term investments. During the first quarter of fiscal year 2007 we received $2.7 million in net proceeds from the sale of land in Frederick, Maryland.

Cash used in investing activities in the nine months ended December 31, 2005 reflected the payment of $165 million to purchase Altec Lansing and $31.4 million in capital expenditures, partially offset by net maturities of short-term investments of $164.4 million.

We anticipate purchasing more short-term investments as interest rates continue to rise in order to obtain more favorable yields. As our business grows, we may need additional facilities and capital expenditures to support our growth. We plan to finish the building improvements at our Santa Cruz headquarters in calendar year 2007. We will continue to evaluate new business opportunities and new markets. If we pursue new opportunities or markets in areas in which we do not have existing facilities, we may need additional expenditures to support future expansion.

Cash Flows From Financing Activities

In the nine months ended December 31, 2006, cash flows used for financing activities were approximately $21.2 million compared to $33.7 million used in the same period a year ago.

Cash used for financing activities for the nine months ended December 31, 2006 included the repurchase of 175,000 shares of our common stock for $4.0 million. As of December 31, 2006, no shares remained authorized for repurchase. We also paid cash dividends totaling $7.1 million and made aggregate payments of $16.0 million to reduce the balance owed on our line of credit. Sources of cash included proceeds of $2.7 million from the exercise of employee stock options and $2.7 million from the re-issuance of treasury stock under our employee stock purchase plan.

Cash used for financing activities for the nine months ended December 31, 2005 included the repurchase of 1.4 million shares of our common stock for $69.6 million and the payment of cash dividends of $7.1 million. These cash outflows were partially offset by net proceeds of $32.1 million from our line of credit, proceeds of $8.4 million from the exercise of employee stock options and proceeds of $2.5 million from the re-issuance of treasury stock under our employee stock purchase plan.

On January 22, 2007, we announced that our Board of Directors had declared a cash dividend of $0.05 per share of our common stock, payable on March 9, 2007 to stockholders of record on February 9, 2007. The plan approved by the Board anticipates a total annualized dividend of $0.20 per common share. The actual declaration of future dividends, and the establishment of record and payment dates, is subject to final determination by the Audit Committee of the Board of Directors of Plantronics each quarter after its review of our financial condition and financial performance.

Table of Contents

Liquidity and Capital Resources

Our primary discretionary cash requirements historically have been for capital expenditures, including tooling for new products and leasehold improvements for facilities expansion. In fiscal 2006, we undertook several large projects which included construction of our new manufacturing and design facility in Suzhou, China which has now been substantially completed and is presently in operation. We spent $2.7 million on capital expenditures for Suzhou, China in the nine months ended December 31, 2006, compared to $13.2 million in the same period a year ago. We also began construction of the new industrial design wing at our Santa Cruz headquarters building in fiscal 2006 and spent $1.4 million and $0.4 million on capital expenditures for this project in each of the nine month periods ended December 31, 2005 and 2006, respectively. We have also made $1.8 million of capital expenditures to improve our manufacturing facility in Tijuana, Mexico in the nine month period ended December 31, 2006, compared to $2.5 million in the same period a year ago.

For the remainder of fiscal 2007, we expect to spend approximately $8 million on capital expenditures, which includes the expansion and improvement of our facilities at our Santa Cruz site.

At December 31, 2006, we had working capital of $242.9 million, including $68.7 million of cash and cash equivalents, compared with working capital of $201.4 million, including $76.7 million of cash, cash equivalents and short-term investments at March 31, 2006.

We have a $100 million revolving line of credit and a letter of credit sub-facility. Borrowings under the line of credit are unsecured and bear interest at the London inter-bank offered rate (“LIBOR”) plus 0.75%. The line of credit expires on August 1, 2010. In the nine months ended December 31, 2006, we made aggregate principal payments of $16.0 million against the outstanding balance. At December 31, 2006, our borrowings were $6.0 million under the credit facility and our commitments under a letter of credit sub-facility were $1.6 million. The amounts outstanding under the letter of credit sub-facility are principally associated with purchases of inventory. The terms of the credit facility contain covenants that materially limit our ability to incur additional debt and pay dividends, among other matters. It also requires us to maintain, in addition to a minimum annual net income, a maximum leverage ratio and a minimum quick ratio. These covenants may adversely affect us to the extent we cannot comply with them. We are currently in compliance with the covenants under our amended Credit Agreement. We anticipate paying off the remaining balance on the credit facility by the end of fiscal 2007.

We enter into foreign currency forward-exchange contracts, which typically mature in one month, to hedge the exposure to foreign currency fluctuations of foreign currency-denominated receivables, payables, and cash balances. We record on the balance sheet at each reporting period the fair value of our forward-exchange contracts and record any fair value adjustments in results of operations. Gains and losses associated with currency rate changes on contracts are recorded as other income (expense), offsetting transaction gains and losses on the related assets and liabilities.

We also have a hedging program to hedge a portion of forecasted revenues denominated in the Euro and Great British Pound with put and call option contracts used as collars. At each reporting period, we record the net fair value of our unrealized option contracts on the balance sheet with related unrealized gains and losses as a component of accumulated other comprehensive income, a separate element of stockholders’ equity. Gains and losses associated with realized option contracts are recorded within revenue.

Our liquidity, capital resources, and results of operations in any period could be affected by the exercise of outstanding stock options, sale of restricted stock to employees, and the issuance of common stock under our employee stock purchase plan. Further, the resulting increase in the number of outstanding shares could affect our per share earnings. However, we cannot predict the timing or amount of proceeds from the sale or exercise of these

securities, or whether they will be exercised at all.

We believe that our current cash, cash equivalents and cash provided by operations, and our line of credit will be sufficient to fund operations for at least the next twelve months. However, any projections of future financial needs and sources of working capital are subject to uncertainty. See “Certain Forward-Looking Information” and “Risk Factors” in this Quarterly Report on Form 10-Q for factors that could affect our estimates for future financial needs and sources of working capital.

Table of Contents

OFF BALANCE SHEET ARRANGEMENTS

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing and liquidity support or market risk or credit risk support to the Company.

CONTRACTUAL OBLIGATIONS

The following table summarizes the contractual obligations as of December 31, 2006, and the effect that such obligations are expected to have on our liquidity and cash flows in future periods.

		Payments Due by Period					
($ in thousands)	**Total**	**Remainder of Fiscal 2007**	**Fiscal 2008**	**Fiscal 2009**	**Fiscal 2010**	**Fiscal 2011**	**Thereafter**
Operating leases	$ 12,666	$ 1,062	$ 3,805	$ 3,102	$ 1,780	$ 764	$ 2,153
Unconditional purchase obligations	85,183	56,789	28,394				
Total contractual cash obligations	$ 97,849	$ 57,851	$ 32,199	$ 3,102	$ 1,780	$ 764	$ 2,153

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

For a complete description of what we believe to be the critical accounting policies that affect our more significant judgments and estimates used in the preparation of our financial statements, refer to our Annual Report on Form 10-K for the fiscal year ended April 1, 2006. We added the following critical accounting policy during the first quarter of fiscal 2007.

Stock-based Compensation Expense

During the first quarter of fiscal 2007, we adopted the provisions of, and now account for stock-based compensation in accordance with, Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 123—revised 2004 ("SFAS 123(R)"), "Share-Based Payment" which replaced Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Under the fair value recognition provisions of this statement, our stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. We elected the modified-prospective adoption method, under which prior periods are not restated for comparative purposes. The valuation provisions of SFAS 123(R) apply to new grants, to unvested grants that were outstanding as of the effective date and to all outstanding awards subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost previously estimated for the SFAS 123 pro forma disclosures. We make regular assessments of the adequacy of our tax credit pool to determine if there are any deficiencies which require recognition in our condensed consolidated statements of operations.

We calculate the fair value of restricted stock based on the fair market value of our stock on the date of grant. We calculate the fair value of stock options and employee stock purchase plan shares using the Black-Scholes option pricing model. The determination of the fair value of stock-based payment awards using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

Table of Contents

We estimate the volatility of our common stock based on an equally weighted average of historical and implied volatility. Implied volatility is based on the volatility of our publicly traded options on our common stock. We determined that a blend of historical and implied volatility is more reflective of market conditions and a better indicator of expected volatility than using purely historical volatility, which we had used for our pro forma disclosures under SFAS 123 prior to fiscal 2007. We estimate the expected life of options granted based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. We base the risk-free interest rate on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. We base the dividend yield assumption on our current dividend and the market price of our common stock at the date of grant. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on the Company's historical experience.

The guidance in SFAS 123(R) and SAB 107 is relatively new. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and could materially affect the fair value estimate of stock-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

The adoption of SFAS 123(R) had a material impact on our condensed consolidated financial position and results of operations. See Note 3, "Stock-Based Compensation", for further information regarding our stock-based compensation assumptions and expenses, including pro forma disclosures for prior periods as if we had recorded stock-based compensation expense.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes", which clarifies the accounting for uncertainty in tax positions. FIN 48 prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The provisions of FIN 48 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact of adopting the provisions of FIN 48 on our financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements", which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We are currently evaluating the impact of adopting the provisions of SFAS 157 on our financial statements.

In September 2006, the Staff of the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year's financial statements are materially misstated. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 is not expected to have an impact on our consolidated financial position, results of operations or cash flows.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The following discusses our exposure to market risk related to changes in interest rates and foreign currency exchange rates. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in "Risk Factors Affecting Future Operating Results."

INTEREST RATE RISK

At December 31, 2006 and March 31, 2006, we had cash and cash equivalents totaling $68.7 million. We had no short-term investments at December 31, 2006 compared to $8.0 million at March 31, 2006.

As of January 26, 2007, we had borrowed $3.0 million under the revolving credit facility and $1.5 million committed under the letter of credit sub-facility. If we choose to borrow additional amounts under this facility in the future and market interest rates rise, then our interest payments would increase accordingly.

Our line of credit has a borrowing rate of LIBOR plus 0.75%, which resulted in a weighted average rate of approximately 5.975%. A hypothetical 10% change in interest rates would not have a material effect on our borrowing rate.

FOREIGN CURRENCY EXCHANGE RATE RISK

We are engaged in a hedging strategy to diminish, and make more predictable, the effect of currency fluctuations. We hedge our economic exposure by hedging a portion of forecasted Euro and Great British Pound denominated sales, and Euro and Great British Pound accounts receivable and accounts payable. However, we can provide no assurance that exchange rate fluctuations will not materially adversely affect our business in the future.

Fair Value Hedges

We hedge both our Euro and Great British Pound accounts receivable and accounts payable by entering into foreign exchange forward contracts. The following table provides information about our financial instruments that are sensitive to foreign currency exchange rates, including foreign currency forward-exchange contracts. The table below presents the impact of a hypothetical 10% appreciation and a 10% depreciation of the U.S. dollar against the forward currency contracts:

December 31, 2006
(in millions)

Currency - forward contracts	USD Value of Net FX Contracts	FX Gain (Loss) From 10% Appreciation of USD	FX Gain (Loss) Form 10% Depreciation of USD
Euro	$ 25.7	$ 2.6	$ (2.6)
Great British Pound	6.1	0.6	(0.6)
Net position	$ 31.8	$ 3.2	$ (3.2)

Cash Flow Hedges

In the nine months ended December 31, 2006, approximately 38% of our consolidated revenue was derived from sales outside of the United States, which were predominantly denominated in the Euro and the Great British Pound.

As of December 31, 2006, we had foreign currency call option contracts of approximately €56.4 million and £17.9 million denominated in Euros and Great British Pounds, respectively. As of December 31, 2006, we also had foreign currency put option contracts of approximately €56.4 million and £17.9 million denominated in Euros and Great British Pounds, respectively. Collectively, our option contracts hedge against a portion of our forecasted foreign denominated sales. If these option contracts are subjected to either a 10% appreciation or 10% depreciation versus the U.S. dollar, we could incur a gain of $10.2 million or a loss of $11.1 million, respectively.

Table of Contents

The table below presents the impact on our currency option contracts of a hypothetical 10% appreciation and a 10% depreciation of the U.S. dollar against the indicated option contract type for cash flow hedges:

December 31, 2006
(in millions)

Currency - option contracts	USD Value of Net FX Contracts	FX Gain (Loss) From 10% Appreciation of USD	FX Gain (Loss) Form 10% Depreciation of USD
Call options	$ (109.8)	$ 4.1	$ (9.4)
Put options	103.6	6.1	(1.7)
Net position	$ (6.2)	$ 10.2	$ (11.1)

Item 4. Controls And Procedures.

(a) Evaluation of disclosure controls and procedures.

We maintain a set of disclosure controls and procedures that are designed to ensure that information relating to Plantronics, Inc. required to be disclosed in periodic filings under Securities Exchange Act of 1934, or Exchange Act, is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commissions rules and forms.

In connection with the filing of Form 10-Q for the quarter ended December 31, 2006, our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2006.

(b) Changes in internal control over financial reporting

On August 18, 2005, we acquired Altec Lansing Technologies, Inc. Our management has not yet completed an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission for this recently acquired subsidiary. We intend to disclose all material changes resulting from this acquisition within or prior to the time of our first annual assessment of internal control over financial reporting that is required to include this entity. Other than changes from this acquisition, there were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are presently engaged in various legal actions arising in the normal course of our business. We believe that it is unlikely that any of these actions will have a material adverse impact on our operating results. However, because of the inherent uncertainties of litigation, the outcome of any of these actions could be unfavorable and could have a material adverse effect on our financial condition, results of operations or cash flows.

Four class action lawsuits were recently filed against Plantronics alleging that our Bluetooth headsets may cause noise-induced hearing loss. *Shannon Wars et al. vs. Plantronics, Inc.* was filed on November 14, 2006 in the United States District Court for the Eastern District of Texas. *Lori Raines, et al. vs. Plantronics, Inc.* was filed on October 20, 2006 in the United States District Court, Central District of California. *Kyle Edwards, et al vs. Plantronics, Inc.* was filed on October 17, 2006 in the United States District Court, Middle District of Florida. *Bruce Schiller, et al vs. Plantronics, Inc.* was filed on October 10, 2006 in the Superior Court of the State of California in and for the County of Los Angeles. The complaints state that they do not allege actual personal injury to any individual. All of these complaints seek various remedies, including injunctive relief requiring Plantronics to include certain additional warnings with its Bluetooth headsets and to redesign the headsets to limit the volume produced, or, alternatively, to provide the user with the ability to determine the level of sound emitted from the headset. Plaintiffs also seek unspecified general, special, and punitive damages, as well as restitution. We do not believe that the allegations in these lawsuits have any merit, and Plantronics will aggressively defend itself in these cases.

ITEM 1A. RISK FACTORS.

Investors or potential investors in our stock should carefully consider the risks described below. Our stock price will reflect the performance of our business relative to, among other things, our competition, expectations of securities analysts or investors, and general economic market conditions and industry conditions. One should carefully consider the following factors in connection with any investment in our stock. Our business, financial condition and results of operations could be materially adversely affected if any of the following risks occur. Should any or all of the following risks materialize, the trading price of our stock could decline, and investors could lose all or part of their investment.

Our operating results are difficult to predict and fluctuations may cause volatility in the trading price of our common stock.

Given the nature of the markets in which we compete, our revenues and profitability are difficult to predict for many reasons, including the following:

- Our operating results are highly dependent on the volume and timing of orders received during the quarter, which are difficult to forecast. Customers generally order on an as-needed basis, and we typically do not obtain firm, long-term purchase commitments from our customers. As a result, our revenues in any quarter depend primarily on orders booked and shipped in that quarter;

- We must incur a large portion of our costs in advance of sales orders because we must plan research and production, order components and enter into development, sales and marketing, and other operating commitments prior to obtaining firm commitments from our customers. In the event we acquire too much inventory for certain products, the risk of future inventory write-downs increases. In the event we have inadequate inventory to meet the demand for particular products, we may miss significant revenue opportunities or may incur significant expenses such as air freight, expediting shipments, and other negative variances in our manufacturing processes as we attempt to make up

for the shortfall. The foregoing difficulties are exacerbated in periods such as the present when a significant portion of our revenue is derived from new products and the difficulties of forecasting appropriate volumes of production are even more tenuous;

Table of Contents

- Our ACG profitability depends, in part, on the mix of our Business-to-Business ("B2B") and Business-to-Consumer ("B2C") as well as our product mix. Our prices and gross margins are generally lower for sales to B2C customers compared to sales to our B2B customers. Our prices and gross margins can vary significantly by product line as well as within product lines. The size and timing of opportunities in this market are difficult to predict;

- A significant portion of our annual retail sales for AEG generally occur in the third fiscal quarter, thereby increasing the difficulty of predicting revenues and profitability from quarter to quarter and in managing inventory levels;

- Fluctuations in currency exchange rates impact our revenues and profitability because we report our financial statements in U.S. dollars, whereas a significant portion of our sales to customers are transacted in other currencies, particularly the Euro. Furthermore, fluctuations in foreign currencies impact our global pricing strategy resulting in our lowering or raising selling prices in a currency in order to avoid disparity with U.S. dollar prices and to respond to currency-driven competitive pricing actions; and

- Because we have significant manufacturing operations in Mexico and China, fluctuations in currency exchange rates in those two countries can impact our gross profit and profitability.

Fluctuations in our operating results may cause volatility in the trading price of our common stock. For example, in the second and fourth quarters of fiscal year 2006 and the first quarter of fiscal year 2007, our operating results either did not meet our targets or the market's expectations, which had a significant adverse effect on the trading price of our common stock.

If we do not match production to demand, we may lose business or our gross margins could be materially adversely affected.

Our industry is characterized by rapid technological change, frequent new product introductions, short-term customer commitments and rapid changes in demand. We determine production levels based on our forecasts of demand for our products. Actual demand for our products depends on many factors, which makes it difficult to forecast. We have experienced differences between our actual and our forecasted demand in the past and expect differences to arise in the future. Significant unanticipated fluctuations in demand and the global trend towards consignment of products could cause the following operating problems, among others:

- If forecasted demand does not develop, we could have excess inventory and excess capacity. Over-forecast of demand could result in higher inventories of finished products, components and subassemblies. In addition, because our retail customers have pronounced seasonality, we must build inventory well in advance of the December quarter in order to stock up for the anticipated future demand. If we were unable to sell these inventories, we would have to write off some or all of our inventories of excess products and unusable components and subassemblies. Excess manufacturing capacity could lead to higher production costs and lower margins.

- If demand increases beyond that forecasted, we would have to rapidly increase production. We currently depend on suppliers to provide additional volumes of components and sub-assemblies, and we are experiencing greater dependence on single source suppliers; therefore, we might not be able to increase production rapidly enough to meet unexpected demand. This could cause us to fail to meet customer expectations. There could be short-term losses of sales while we are trying to increase production. If customers turn to our competitors to meet their needs, there could be a long-term impact on our revenues and profitability.

- Rapid increases in production levels to meet unanticipated demand could result in higher costs for components and sub-assemblies, increased expenditures for freight to expedite delivery of required materials, and higher overtime costs and other expenses. These higher expenditures could lower our profit margins. Further, if production is

increased rapidly, there may be decreased manufacturing yields, which may also lower our margins.

Table of Contents

The introduction of *Bluetooth* and other wireless headsets presents many significant manufacturing, marketing and other operational risks and uncertainties, including developing and marketing these wireless headset products; unforeseen delays or difficulties in introducing and achieving volume production of such products, as occurred in our second and third quarter of fiscal 2006; our dependence on third parties to supply key components, many of which have long lead times; and our ability to forecast demand for this new product category for which relevant data is incomplete or unavailable. We may have longer lead times with certain suppliers than commitments from some of our customers. If we are unable to deliver product on time to meet the market window of our retail customers, we will lose opportunities to increase revenues and profits. We may also be unable to sell these finished goods, which would result in excess or obsolete inventory.

Increasing production beyond planned capacity involves increasing tooling, test equipment and hiring and training additional staff. Lead times to increase tooling and test equipment are typically several months, or more. Once such additional capacity is in place, we incur increased depreciation and the resulting overhead. Should we fail to ramp production once capacity is in place, we would not be able to absorb this incremental overhead, and this could lead to lower gross margins.

We are in the process of in sourcing some of our production from certain third party vendors, and shifting some production from our plant in Mexico to our plant in Suzhou, China. If we are not able to successfully transition production we may not be able to meet demand or manufacture products at a cost which is competitive with historical costs.

Any of the foregoing problems could materially and adversely affect our business, financial condition and results of operations.

Integration of Altec Lansing Technologies, Inc. may have an adverse effect on our business and financial condition.

There are inherent risks associated with our acquisition of Altec Lansing that could materially adversely affect our business, financial condition and results of operations. The risks faced in connection with this acquisition include among others:

— Cultural differences in the conduct of the business;

Difficulties in integration of the operations, technologies, and products of Altec Lansing. Our systems integration plan for Altec Lansing includes the on-going transition of Altec Lansing’s current ERP system to ours. We anticipate that there will be significant business processes and internal controls which will change as a result of the integration. If we are unable to complete the systems integration plan successfully or on a timely basis this could result either in delays to our internal controls evaluation for Altec Lansing or in additional costs in the documentation and testing of these controls;

— Diversion of management's attention from normal daily operations of the core business;

— The potential loss of key employees of Altec Lansing and Plantronics;

— Competition may continue to increase in Altec Lansing’s markets more than expected; and

— Altec Lansing’s product sales and new product development may not evolve as anticipated.

Mergers and acquisitions, particularly those of technology companies, are inherently risky, and no assurance can be given that this or any future acquisitions will be successful and will not materially adversely affect our business, operating results or financial condition. We must also manage any acquisition-related growth effectively. Failure to manage growth effectively and successfully integrate this or any future acquisitions made by us could materially harm our business and operating results. If the anticipated future results of operations of the combined Altec Lansing and Plantronics' businesses do not materialize as expected, goodwill and other intangible assets which were recorded as a result of the acquisition could become impaired and could result in write-offs which would negatively impact our operating results.

Table of Contents

Our business will be materially adversely affected if we are not able to develop, manufacture and market new products in response to changing customer requirements and new technologies.

The market for our products is characterized by rapidly changing technology, evolving industry standards, short product life cycles and frequent new product introductions. As a result, we must continually introduce new products and technologies and enhance existing products in order to remain competitive.

The technology used in our products is evolving more rapidly now than it has historically, and we anticipate that this trend may accelerate. Historically, the technology used in lightweight communications headsets and speakers has evolved slowly. New products have primarily offered stylistic changes and quality improvements rather than significant new technologies. Our increasing reliance and focus on the B2C market has resulted in a growing portion of our products incorporating new technologies, experiencing shorter lifecycles and a need to offer deeper product lines. We believe this is particularly true for our newer emerging technology products especially in the speaker, mobile, computer, residential and certain parts of the office markets. In particular, we anticipate a trend towards more integrated solutions that combine audio, video, and software functionality, while currently our focus is limited to audio products.

We are also experiencing a trend away from corded headsets to cordless products. In general, our corded headsets have had higher gross margins than our cordless products. In addition, we expect that office phones will begin to incorporate *Bluetooth* functionality, which would open the market to consumer *Bluetooth* headsets and reduce the demand for our traditional office telephony headsets and adapters as well as impacting potential revenues from our own wireless headset systems, resulting in lost revenue and lower margins.

The success of our products depends on several factors, including our ability to:

— Anticipate technology and market trends;

— Develop innovative new products and enhancements on a timely basis;

— Distinguish our products from those of our competitors;

— Manufacture and deliver high-quality products in sufficient volumes; and

— Price our products competitively.

If we are unable to develop, manufacture, market and introduce enhanced or new products in a timely manner in response to changing market conditions or customer requirements, including changing fashion trends and styles, it will materially adversely affect our business, financial condition and results of operations. Furthermore, as we develop new generations of products more quickly, we expect that the pace of product obsolescence will increase concurrently. The disposition of inventories of excess or obsolete products may result in reductions to our operating margins and materially adversely affect our earnings and results of operations.

The failure of our suppliers to provide quality components or services in a timely manner could adversely affect our results.

Our growth and ability to meet customer demands depend in part on our ability to obtain timely deliveries of raw materials, components, sub-assemblies and products from our suppliers. We buy raw materials, components and sub-assemblies from a variety of suppliers and assemble them into finished products. We also have certain of our products manufactured for us by third party suppliers. The cost, quality, and availability of such goods are essential to

the successful production and sale of our products. Obtaining raw materials, components, sub-assemblies and finished products entails various risks, including the following:

- We obtain certain raw materials, sub-assemblies, components and products from single suppliers and alternate sources for these items are not readily available. To date, we have not experienced any significant interruptions in the supply of these raw materials, sub-assemblies, components and products. Adverse economic conditions could lead to a higher risk of failure of our suppliers to remain in business or to be able to purchase the raw materials, subcomponents and parts required by them to produce and provide to us the parts we need. An interruption in supply from any of our single source suppliers in the future would materially adversely affect our business, financial condition and results of operations.

Table of Contents

Prices of raw materials, components and sub-assemblies may rise. If this occurs and we are not able to pass these increases on to our customers or to achieve operating efficiencies that would offset the increases, it would have a material adverse effect on our business, financial condition and results of operations.

Due to the lead times required to obtain certain raw materials, sub-assemblies, components and products from certain foreign suppliers, we may not be able to react quickly to changes in demand, potentially resulting in either excess inventories of such goods or shortages of the raw materials, sub-assemblies, components and products. Lead times are particularly long on silicon-based components incorporating radio frequency and digital signal processing technologies and such components are an increasingly important part of our product costs. In particular, many B2C customer orders have shorter lead times than the component lead times, making it increasingly necessary to carry more inventory in anticipation of those orders, which may not materialize. Failure in the future to match the timing of purchases of raw materials, sub-assemblies, components and products to demand could increase our inventories and/or decrease our revenues, consequently materially adversely affecting our business, financial condition and results of operations.

Most of our suppliers are not obligated to continue to provide us with raw materials, components and sub-assemblies. Rather, we buy most raw materials, components and subassemblies on a purchase order basis. If our suppliers experience increased demand or shortages, it could affect deliveries to us. In turn, this would affect our ability to manufacture and sell products that are dependent on those raw materials, components and subassemblies. For example, during the first quarter of fiscal 2005, we had lower shipments to one of our key wireless OEM carrier partners, which resulted from a constraint in supply of a new part for a custom product. Such shortages would materially adversely affect our business, financial condition and results of operations.

Although we generally use standard raw materials, parts and components for our products, the high development costs associated with emerging wireless technologies permits us to work with only a single source of silicon chip-sets on any particular new product. We, or our chosen supplier of chip-sets, may experience challenges in designing, developing and manufacturing components in these new technologies which could affect our ability to meet market schedules. Due to our dependence on single suppliers for certain chip sets, we could experience higher prices, a delay in development of the chip-set, and/or the inability to meet our customer demand for these new products. Our business, operating results and financial condition could therefore be materially adversely affected as a result of these factors.

We depend on original design manufacturers and contract manufacturers who may not have adequate capacity to fulfill our needs or may not meet our quality and delivery objectives.

Original design manufacturers and contract manufacturers produce key portions of our product lines for us. Our reliance on them involves significant risks, including reduced control over quality and logistics management, the potential lack of adequate capacity and loss of services. Financial instability of our manufacturers or contractors could result in our having to find new suppliers, which could increase our costs and delay our product deliveries. These manufacturers and contractors may also choose to discontinue building our products for a variety of reasons.

Consequently, we may experience delays in the timeliness, quality and adequacy of product deliveries, any of which could harm our business and operating results.

Demand for iPod products, which are produced by Apple, Inc., affects demand for certain portable products.

Certain of our portable products under our Altec Lansing brand were developed for use with Apple, Inc.'s ("Apple") iPod products. We have a non-exclusive right to use the Apple interface with certain of our portable products, and we are required to pay Apple a royalty for this right. The risks faced in conjunction with our Apple related products include,

among others:

- If supply or demand for iPod products decreases, demand for certain of our portable products could be negatively affected, as we experienced in the first quarter of fiscal 2007. MP3 integration with cell phones could take significant market share from Apple's iPod products;

- If Apple does not renew or cancels our licensing agreement, our products may not be compatible with iPods, resulting in loss of revenues and excess inventories which would negatively impact our financial results;

- If Apple changes its iPod product design more frequently than we update certain of our portable products, certain of our products may not be compatible with the changed design. Moreover, if Apple makes style changes to its products more frequently than we update certain of our portable products, consumers may not like the look of our products with the iPod. Both of these factors could result in decreased demand for our products and excess inventories could result which would negatively impact our financial results; and

- Apple has recently introduced its own line of iPod speaker products, which compete with certain of our Altec Lansing-branded speaker products. As the manufacturer of the iPod, Apple has unique advantages with regard to product changes or introductions that we do not possess, which could negatively impact our ability to compete effectively against Apple's speaker products. Moreover, certain consumers may prefer to buy Apple's iPod speakers rather than other vendors' speakers because Apple is the manufacturer. As a result, this could lead to decreased demand for our products and excess inventories could result which would negatively impact our financial results.

We sell our products through various channels of distribution that can be volatile and failure to establish successful relationships with our channel partners could materially adversely affect our business, financial condition or results of operations.

We sell substantially all of our products through distributors, retailers, OEM customers and telephony service providers. Our existing relationships with these parties are not exclusive and can be terminated by either party without cause. Our channel partners also sell or can potentially sell products offered by our competitors. To the extent that our competitors offer our channel partners more favorable terms, such partners may decline to carry, de-emphasize or discontinue carrying our products. In the future, we may not be able to retain or attract a sufficient number of qualified channel partners. Further, such partners may not recommend, or continue to recommend, our products. In the future, our OEM customers or potential OEM customers may elect to manufacture their own products, similar to those we currently sell to them. The inability to establish or maintain successful relationships with distributors, OEM customers, retailers and telephony service providers or to expand our distribution channels could materially adversely affect our business, financial condition or results of operations.

As a result of the growth of our B2C business, our customer mix is changing and certain retailers, OEM customers and wireless carriers are becoming significant. This greater reliance on certain large customers could increase the volatility of our revenues and earnings. In particular, we have several large customers whose order patterns are difficult to predict. Offers and promotions by these customers may result in significant fluctuations of their purchasing activities over time. If we are unable to anticipate the purchase requirements of these customers, our quarterly revenues may be adversely affected and/or we may be exposed to large volumes of inventory that cannot be immediately resold to other customers.

The success of our business depends heavily on our ability to effectively market our products, and our business could be materially adversely affected if markets do not develop as we expect.

We compete in the B2B market for the sale of our office and contact center products. We believe that our greatest long-term opportunity for profit growth in ACG is in the office market, and our foremost strategic objective for this segment is to increase headset adoption. To this end, we are investing in creating new products that are more

appealing in functionality and design as well as investing in a national advertising campaign to increase awareness and interest. If these investments do not generate incremental revenue, our business could be materially affected. We are also experiencing a more aggressive and competitive environment with respect to price in our B2B markets, leading to increased order volatility which puts pressure on profitability and could result in a loss of market share if we do not respond effectively.

Table of Contents

We also compete in the B2C market for the sale of our mobile, computer audio, gaming, Altec Lansing and Clarity products. We believe that consumer marketing is highly relevant in the B2C market, which is dominated by large brands that have significant consumer mindshare. We invested in marketing initiatives to raise awareness and consideration of the Plantronics brand. We believe this will help increase preference for Plantronics and promote headset adoption overall. The B2C market is characterized by relatively rapid product obsolescence and we are at risk if we do not have the right products at the right time to meet consumer needs. In addition, some of our competitors have significant brand recognition, and we are experiencing more competition in pricing actions, which can result in significant losses and excess inventory.

If we are unable to stimulate growth in our B2B and B2C markets, if our costs to stimulate demand do not generate incremental profit, or if we experience significant price competition, our business, financial condition, results of operations and cash flows could suffer. In addition, failure to effectively market our products to customers in these markets could lead to lower and more volatile revenue and earnings, excess inventory and the inability to recover the associated development costs, any of which could also have a material adverse effect on our business, financial condition, results of operations and cash flows.

Headset markets are also subject to general economic conditions and if there is a slowing of national or international economic growth, these markets may not materialize to the levels we require to achieve our anticipated financial results, which could in turn materially adversely affect the market price of our stock. In particular, we may accept returns from our retailers of products that have failed to sell as expected, and, in some instances, such products may be returned to our inventory. Should product returns vary significantly from our estimate, then our estimated returns which net against revenue, may need to be revised.

We have significant intangible assets recorded on our balance sheet. If the carrying value of our intangible assets is not recoverable, an impairment loss must be recognized, which would adversely affect our financial results.

As a result of the acquisition of Altec Lansing and Octiv, now Volume Logic, in fiscal 2006, we have significant intangible assets recorded on our balance sheet. Certain events or changes in circumstances would require us to assess the recoverability of the carrying amount of our intangible assets. To date, we have not recorded any impairment losses. We will continue to evaluate the recoverability of the carrying amount of our intangible assets, and we may incur substantial impairment charges, which would adversely affect our financial results.

Our failure to effectively manage growth could harm our business.

We have rapidly and significantly expanded the number and types of products we sell, and we will endeavor to further expand our product portfolio. We must continually introduce new products and technologies, enhance existing products in order to remain competitive, and effectively stimulate customer demand for new products and upgraded versions of our existing products.

This expansion of our products places a significant strain on our management, operations and engineering resources. Specifically, the areas that are strained most by our growth include the following:

New Product Launch. With the growth of our product portfolio, we experience increased complexity in coordinating product development, manufacturing, and shipping. As this complexity increases, it places a strain on our ability to accurately coordinate the commercial launch of our products with adequate supply to meet anticipated customer demand and effective marketing to stimulate demand and market acceptance. If we are unable to scale and improve our product launch coordination, we could frustrate our customers and lose retail shelf space and product sales.

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Forecasting, Planning and Supply Chain Logistics. With the growth of our product portfolio, we also experience increased complexity in forecasting customer demand and in planning for production, and transportation and logistics management. If we are unable to scale and improve our forecasting, planning and logistics management, we could frustrate our customers, lose product sales or accumulate excess inventory.

Table of Contents

Support Processes. To manage the growth of our operations, we will need to continue to improve our transaction processing, operational and financial systems, and procedures and controls to effectively manage the increased complexity. If we are unable to scale and improve these areas, the consequences could include: delays in shipment of product, degradation in levels of customer support, lost sales, decreased cash flows, and increased inventory. These difficulties could harm or limit our ability to expand.

We have strong competitors and expect to face additional competition in the future. If we are unable to compete effectively, our results of operations may be adversely affected.

Certain of our markets are intensely competitive. They are characterized by a trend of declining average selling prices, continual performance enhancements and new features, as well as rapid adoption of technological and product advancements by competitors in our retail market. Also, aggressive industry pricing practices have resulted in downward pressure on margins from both our primary competitors as well as from less established brands.

Competitors in audio devices vary by product line. In the PC speaker business, competitors include Logitech and Creative Labs. In the PC and office and contact center markets, a significant competitor is Sennheiser Communications. In the PC and console headset, telephony and microphone business, our primary competitor is Logitech. In the Audio Entertainment speaker business, competitors include Harmon Kardon, Bose, Logitech, Cyber Acoustics and Creative Labs. Since our entry into the mobile phone headset business, we have been competing against mobile phone and accessory companies such as Jabra, Motorola, Nokia, and Sony−Ericsson, some of whom have substantially greater resources than we have, and each of whom has established market positions in this business. Currently, our single largest competitor is GN Netcom, a subsidiary of GN Great Nordic Ltd., a Danish telecommunications conglomerate. We are currently experiencing more price competition from GN Netcom in the B2B markets than in the past. Motorola is a significant competitor in the consumer headset market, primarily in the mobile *Bluetooth* market, and has a brand name that is very well known and supported with significant marketing investments. Motorola also benefits from the ability to bundle other offerings with their headsets. We are also experiencing additional competition from other consumer electronics companies that currently manufacture and sell mobile phones or computer peripheral equipment. These competitors generally are larger, offer broader product lines, bundle or integrate with other products communications headset tops and bases manufactured by them or others, offer products containing bases that are incompatible with our headset tops and have substantially greater financial, marketing and other resources than we do.

Our product markets are intensely competitive and market leadership changes frequently as a result of new products, designs and pricing. The growing focus of telephony service providers on the resale and profit from headsets and other accessories threatens the price structure of the industry, margins and market share. We also expect to face additional competition from companies, principally located in the Far East, which offer very low cost headset products, including products that are modeled on, or are direct copies of our products. These new competitors are likely to offer very low cost products, which may result in pricing pressure in the market. If market prices are substantially reduced by such new entrants into the headset market, our business, financial condition or results of operations could be materially adversely affected.

Further, we expect to continue to experience increased competitive pressures in our retail business, particularly in the terms and conditions that our competitors offer to our customers, which may be more favorable than our terms. For example, some of our competitors are beginning to offer to consign products rather than sell them directly to their customers. In order to compete effectively, we are offering similar terms to select customers within our Audio Communications products space. Offering more products on a consignment basis could potentially delay the timing of our revenue recognition, increase inventory balances as well as require changes in our systems to track inventory and point of sale.

If we do not continue to distinguish our products, particularly our retail products, through distinctive, technologically advanced features, and design, as well as continue to build and strengthen our brand recognition, our business could be harmed. In particular, Microsoft's entry into the Universal Audio Architecture open access platform, provides more value in software and, as a result, reduces the opportunities for us to provide distinctive, technologically advanced features, further commoditizing headsets. If we do not otherwise compete effectively, demand for our products could decline, our gross margins could decrease, we could lose market share, and our revenues and earnings could decline.

Table of Contents

While we believe we comply with environmental laws and regulations, we are still exposed to potential risks associated with environmental regulations.

There are multiple initiatives in several jurisdictions regarding the removal of certain potential environmentally sensitive materials from our products to comply with the European Union Directives on Restrictions on certain Hazardous Substances on electrical and electronic equipment ("ROHS") and on Waste Electrical and Electronic Equipment ("WEEE"). In certain jurisdictions the ROHS legislation has already been enacted as of July 1, 2006. However, other jurisdictions have delayed implementation. Some of our customers are requesting that we implement these new compliance standards sooner than the legislation would require. While we believe that we will have the resources and ability to fully meet our customers' requests, and spirit of the ROHS and WEEE directives, if unusual occurrences arise, or, if we are wrong in our assessment of what it will take to fully comply, there is a risk that we will not be able to meet the aggressive schedule set by our customers or comply with the legislation as passed by the EU member states. If that were to happen, a material negative effect on our financial results may occur.

We are subject to various federal, state, local and foreign environmental laws and regulations, including those governing the use, discharge and disposal of hazardous substances in the ordinary course of our manufacturing process. We believe that our current manufacturing operations comply in all material respects with applicable environmental laws and regulations. We have included reserves for environmental remediation in our financial statements related to one of our discontinued businesses as well as for ground and soil contamination at our corporate headquarters in Santa Cruz, California, based upon management's assessment of exposure and the advice of outside environmental consultants. We believe that these reserves will be sufficient to remediate the effects of the contamination found in accordance with the requirements of federal, state and local authorities who have jurisdiction over these sites. While no claims have been asserted against us in connection with these matters, there can be no assurance that such claims will not be asserted in the future or that any resulting liability will not exceed the amount of the reserve. Although we believe that our current manufacturing operations comply in all material respects with applicable environmental laws and regulations, it is possible that future environmental legislation may be enacted or current environmental legislation may be interpreted to create environmental liability with respect to our other facilities, operations, or products. To the extent that we incur claims for environmental matters exceeding reserves or insurance for environmental liability, our operating results could be negatively impacted.

Our products are subject to various regulatory requirements, and changes in such regulatory requirements may adversely impact our gross margins as we comply with such changes or reduce our ability to generate revenues if we are unable to comply.

Our products must meet the requirements set by regulatory authorities in the numerous jurisdictions in which we sell them. As regulations and local laws change, we must modify our products to address those changes. Regulatory restrictions may increase the costs to design and manufacture our products, resulting in a decrease in our margins or a decrease in demand for our products if the costs are passed along. Compliance with regulatory restrictions may impact the technical quality and capabilities of our products reducing their marketability.

Our stock price may be volatile and the value of your investment in Plantronics stock could be diminished.

The market price for our common stock may continue to be affected by a number of factors, including:

— Uncertain economic conditions and the decline in investor confidence in the market place;

— Changes in our published forecasts of future results of operations;

— Quarterly variations in our or our competitors' results of operations and changes in market share;

— The announcement of new products or product enhancements by us or our competitors;

— The loss of services of one or more of our executive officers or other key employees;

— Changes in earnings estimates or recommendations by securities analysts;

— Developments in our industry;

Table of Contents

— Sales of substantial numbers of shares of our common stock in the public market;

— Integration of the Altec Lansing business or market reaction to future acquisitions;

— General market conditions; and

— Other factors unrelated to our operating performance or the operating performance of our competitors.

In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in particular, and that have often been unrelated to the operating performance of these companies. Such factors and fluctuations, as well as general economic, political and market conditions, such as recessions, could materially adversely affect the market price of our common stock.

Our corporate tax rate may increase, which could adversely impact our cash flow, financial condition and results of operations.

We have significant operations in various tax jurisdictions throughout the world and a substantial portion of our taxable income historically has been generated in these jurisdictions. Currently, some of our operations are taxed at rates substantially lower than U.S. tax rates. If our income in these lower tax jurisdictions were no longer to qualify for these lower tax rates, if the applicable tax laws were rescinded or changed, or if the mix of our earnings shifts from lower rate jurisdictions to higher rate jurisdictions, our operating results could be materially adversely affected. While we are looking at opportunities to reduce our tax rate, there is no assurance that our tax planning strategies will be successful. In addition, many of these strategies will require a period of time to implement. Moreover, if U.S. or other foreign tax authorities were to change applicable foreign tax laws or successfully challenge the manner in which our profits are currently recognized, our overall taxes could increase, and our business, cash flow, financial condition and results of operations could be materially adversely affected.

We have significant foreign operations, and there are inherent risks in operating abroad.

During our third quarter of fiscal year 2007, approximately 41% of our net revenues were derived from customers outside the United States. In addition, we conduct the majority of our ACG headset assembly operations in our manufacturing facility located in Tijuana, Mexico, and we obtain most of the components and subassemblies used in our products from various foreign suppliers. We have recently completed construction of a factory and design center in Suzhou, China and are also purchasing a growing number of turnkey products directly from Asia. We have begun to transition new products and outsourced production to our new facility to ramp production. If we are unable to effectively produce new products or to transition outsourced production into our new Suzhou facility, we may be unable to meet demand for these products, and our margins on these products may decrease. There are risks in operating the Suzhou factory and expanding our competency in a rapidly evolving economy because, among other reasons, we may be unable to attract sufficient qualified personnel, intellectual property rights may not be enforced as we expect, power may not be available as contemplated or the like. Should any of these risks occur, we may be unable to maximize the output from the facility and our financial results may decrease from our anticipated levels. Further, the majority of our Audio Entertainment products are manufactured either in our Dongguan, China, manufacturing plant or manufactured by foreign vendors, primarily in China. The inherent risks of international operations, either in Mexico or in Asia, could materially adversely affect our business, financial condition and results of operations. The types of risks faced in connection with international operations and sales include, among others:

— cultural differences in the conduct of business;

— fluctuations in foreign exchange rates;

— greater difficulty in accounts receivable collection and longer collection periods;

— impact of recessions in economies outside of the United States;

— reduced protection for intellectual property rights in some countries;

Table of Contents

— unexpected changes in regulatory requirements;

— tariffs and other trade barriers;

— political conditions in each country;

— management and operation of an enterprise spread over various countries; and

— the burden and administrative costs of complying with a wide variety of foreign laws.

War, terrorism, public health issues or other business interruptions could disrupt supply, delivery or demand of products, which could negatively affect our operations and performance.

War, terrorism, public health issues or other business interruptions whether in the United States or abroad, have caused or could cause damage or disruption to international commerce by creating economic and political uncertainties that may have a strong negative impact on the global economy, our company, and our suppliers or customers. Our major business operations are subject to interruption by earthquake, flood or other natural disasters, fire, power shortages, terrorist attacks, and other hostile acts, public health issues, and other events beyond our control. Our corporate headquarters, information technology, manufacturing, certain research and development activities, and other critical business operations, are located near major seismic faults or flood zones. While we are partially insured for earthquake-related losses or floods, our operating results and financial condition could be materially affected in the event of a major earthquake or other natural or manmade disaster.

Although it is impossible to predict the occurrences or consequences or any events, such as described above, such events could significantly disrupt our operations. In addition, should major public health issues, including pandemics, arise, we could be negatively impacted by the need for more stringent employee travel restrictions, limitations in the availability of freight services, governmental actions limiting the movement of products between various regions, delays in production ramps of new products, and disruptions in the operations of our manufacturing vendors and component suppliers. Our operating results and financial condition could be adversely affected by these events.

We have intellectual property rights that could be infringed by others and we are potentially at risk of infringement of the intellectual property rights of others.

Our success will depend in part on our ability to protect our copyrights, patents, trademarks, trade dress, trade secrets, and other intellectual property, including our rights to certain domain names. We rely primarily on a combination of nondisclosure agreements and other contractual provisions as well as patent, trademark, trade secret, and copyright laws to protect our proprietary rights. Effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our products and media properties are distributed to customers. We currently hold 173 United States patents and additional foreign patents and will continue to seek patents on our inventions when we believe it to be appropriate. The process of seeking intellectual property protection can be lengthy and expensive. Intellectual property may not be issued in response to our applications, and intellectual property that is issued may be invalidated, circumvented or challenged by others. If we are required to enforce our intellectual property or other proprietary rights through litigation, the costs and diversion of management's attention could be substantial. In addition, the rights granted under any intellectual property may not provide us competitive advantages or be adequate to safeguard and maintain our proprietary rights. Moreover, the laws of certain countries do not protect our proprietary rights to the same extent as do the laws of the United States. If we do not enforce and protect our intellectual property rights, it could materially adversely affect our business, financial condition and results of operations.

We are exposed to potential lawsuits alleging defects in our products and/or other claims related to the use of our products.

The use of our products exposes us to the risk of product liability and hearing loss claims. These claims have in the past been, and are currently being, asserted against us. None of the previously resolved claims have materially affected our business, financial condition or results of operations, nor do we believe that any of the pending claims will have such an effect. Although we maintain product liability insurance, the coverage provided under our policies could be unavailable or insufficient to cover the full amount of any such claim. Therefore, successful product liability or hearing loss claims brought against us could have a material adverse effect upon our business, financial condition and results of operations. See Item 1. Legal Proceedings.

Table of Contents

Our mobile headsets are used with mobile telephones. There has been continuing public controversy over whether the radio frequency emissions from mobile telephones are harmful to users of mobile phones. We believe that there is no conclusive proof of any health hazard from the use of mobile telephones but that research in this area is incomplete. We have tested our headsets through independent laboratories and have found that use of our corded headsets reduces radio frequency emissions at the user's head to virtually zero. Our *Bluetooth* and other wireless headsets emit significantly less powerful radio frequency emissions than mobile phones. However, if research establishes a health hazard from the use of mobile telephones or public controversy grows even in the absence of conclusive research findings, there could be an adverse impact on the demand for mobile phones, which reduces demand for headset products. Likewise, should research establish a link between radio frequency emissions and wireless headsets and public concern in this area grows, demand for our wireless headsets could be reduced creating a material adverse effect on our financial results.

There is also continuing and increasing public controversy over the use of mobile telephones by operators of motor vehicles. While we believe that our products enhance driver safety by permitting a motor vehicle operator to generally be able to keep both hands free to operate the vehicle, there is no certainty that this is the case and we may be subject to claims arising from allegations that use of a mobile telephone and headset contributed to a motor vehicle accident. We maintain product liability insurance and general liability insurance that we believe would cover any such claims. However, the coverage provided under our policies could be unavailable or insufficient to cover the full amount of any such claim. Therefore, successful product liability claims brought against us could have a material adverse effect upon our business, financial condition and results of operations.

Our business could be materially adversely affected if we lose the benefit of the services of key personnel.

Our success depends to a large extent upon the services of a limited number of executive officers and other key employees. The unanticipated loss of the services of one or more of our executive officers or key employees could have a material adverse effect upon our business, financial condition and results of operations.

We also believe that our future success will depend in large part upon our ability to attract and retain additional highly skilled technical, management, sales and marketing personnel. Competition for such personnel is intense. We are currently seeing employee departures at a rate greater than that historically experienced due in part to a number of factors such as, a stronger more competitive labor environment, our weaker stock price, reduced bonuses and reduced profit sharing. We may not be successful in attracting and retaining such personnel, and our failure to do so could have a material adverse effect on our business, operating results or financial condition.

The adoption of voice-activated software may cause profits from our contact center products to decline.

We are seeing a proliferation of speech-activated and voice interactive software in the market place. We have been re-assessing long-term growth prospects for the contact center market given the growth rate and the advancement of these new voice recognition-based technologies. Businesses that first embraced these technologies to resolve labor shortages at the peak of the last economic up cycle are now increasing spending on these technologies in order to reduce costs. We may experience a decline in our sales to the contact center market if businesses increase their adoption of speech-activated and voice interactive software as an alternative to customer service agents. Such adoption could cause a net reduction in contact center agents, and our revenues in this market could decline.

A significant portion of our profits comes from the contact center market, and a decline in demand in that market could materially adversely affect our results. While we believe that this market may grow in future periods, this growth could be slow or revenues from this market could be flat or decline. Deterioration in general economic conditions could result in a reduction in the establishment of new contact centers and in capital investments to expand or upgrade existing centers, which could negatively affect our business. Because of our reliance on the contact center

market, we will be affected more by changes in the rate of contact center establishment and expansion and the communications products used by contact center agents than would a company serving a broader market. Any decrease in the demand for contact centers and related headset products could cause a decrease in the demand for our products, which would materially adversely affect our business, financial condition and results of operations.

Table of Contents

While we believe we currently have adequate internal control over financial reporting, 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), beginning with our Annual Report on Form 10-K for the fiscal year ended March 31, 2005, our management is required to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over for financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements.

On August 18, 2005, we acquired Altec Lansing Technologies, Inc. Our management is required to complete an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission for the consolidated company, including this recently acquired business, for the fiscal year ended March 31, 2007. We intend to disclose all material changes to our internal controls over financial reporting resulting from the acquisition of Altec Lansing within or prior to the time of our first annual assessment of internal control over financial reporting that is required to include this business or are reasonably likely to materially affect, our internal control over financial reporting. We are currently in the process of, but have not yet completed, our review of the controls of Altec Lansing; therefore, we may have risk associated with controls at this business.

We have and will continue to incur significant expenses and management resources for Section 404 compliance on an ongoing basis and anticipate significant expenditures associated with Section 404 compliance for the Altec Lansing acquisition. In the event that our chief executive officer, chief financial officer or independent registered public accounting firm determine in the future that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions may be adversely affected and could cause a decline in the market price of our stock.

Provisions in our charter documents and Delaware law and our adoption of a stockholder rights plan may delay or prevent a third party from acquiring us, which could decrease the value of our stock.

Our board of directors has the authority to issue preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting and conversion rights, of those shares without any further vote or action by the stockholders. The issuance of our preferred stock could have the effect of making it more difficult for a third party to acquire us. In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which could also have the effect of delaying or preventing our acquisition by a third party. Further, certain provisions of our Certificate of Incorporation and bylaws could delay or make more difficult a merger, tender offer or proxy contest, which could adversely affect the market price of our common stock.

In 2002, our board of directors adopted a stockholder rights plan, pursuant to which we distributed one right for each outstanding share of common stock held by stockholders of record as of April 12, 2002. Because the rights may substantially dilute the stock ownership of a person or group attempting to take us over without the approval of our board of directors, the plan could make it more difficult for a third party to acquire us, or a significant percentage of our outstanding capital stock, without first negotiating with our board of directors regarding such acquisition.

Table of Contents

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

We have a credit agreement with a major bank containing covenants which limit our ability to pay cash dividends on shares of our common stock except under certain conditions. We believe that we will continue in the near future to meet the conditions that make the payment of cash dividends permissible pursuant to the credit agreement.

ITEM 6. EXHIBITS.

We have filed, or incorporated by reference into this Report, the exhibits listed on the accompanying Index to Exhibits immediately following the signature page of this Form 10-Q.

Table of Contents

SIGNATURE

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

PLANTRONICS, INC.

Date: February 8, 2007

By: /s/ Barbara V. Scherer
Barbara V. Scherer
Senior Vice President - Finance and Administration and Chief Financial Officer

(Principal Financial Officer and Duly Authorized Officer of the Registrant)

Table of Contents

Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

Exhibit Number	Description of Document
2.1	Agreement and Plan of Merger by and among Plantronics, Inc., Sonic Acquisition Corporation, Altec Lansing Technologies, Inc. and the other parties named herein, dated July 11, 2005 (incorporated herein by reference from Exhibit 2.1 of the Registrant's Form 8-K (File 001-12696), filed on August 19, 2005).
3.1.1	Amended and Restated By-Laws of the Registrant (incorporated herein by reference from Exhibit (3.1) to the Registrant's Annual Report on Form 10-K (File No. 001-12696), filed on June 21, 2002).
3.1.2	Certificate of Amendment to Amended and Restated Bylaws of Plantronics, Inc. (incorporated herein by reference from Exhibit (3.1.2) of the Registrant's Current Report on Form 10-K (File No. 001-12696), filed on May 31, 2005).
3.2.1	Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on January 19, 1994 (incorporated herein by reference from Exhibit (3.1) to the Registrant's Quarterly Report on Form 10-Q (File No. 001-12696), filed on March 4, 1994).
3.2.2	Certificate of Retirement and Elimination of Preferred Stock and Common stock of the Registrant filed with the Secretary of State of Delaware on January 11, 1996 (incorporated herein by reference from Exhibit (3.3) of the Registrant's Annual Report on Form 10-K (File No. 001-12696), filed on June 27, 1996).
3.2.3	Certificate of Amendment of Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on August 5, 1997 (incorporated herein by reference from Exhibit (3.1) to the Registrant's Quarterly Report on Form 10-Q (File No. 001-12696), filed on August 12, 1997).
3.2.4	Certificate of Amendment of Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on May 23, 2000 (incorporated herein by reference from Exhibit (4.2) to the Registrant's Registration Statement on Form S-8 (File No. 333-42664), filed on July 31, 2000).
3.3	Registrant's Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock filed with the Secretary of State of the State of Delaware on April 1, 2002 (incorporated herein by reference from Exhibit (3.6) to the Registrant's Form 8-A (File No. 001-12696), filed on March 29, 2002).
4.1	Preferred Stock Rights Agreement, dated as of March 13, 2002 between the Registrant and Equiserve Trust Company, N.A., including the Certificate of Designation, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B, and C, respectively (incorporated herein by reference from Exhibit (4.1) to the Registrant's Form 8-A (File No. 001-12696), filed on March 29, 2002).
10.1*	Plantronics, Inc. Non-EMEA Quarterly Profit Sharing Plan (incorporated herein by reference from Exhibit (10.1) to the Registrant's Report on Form 10-K (File No. 001-12696), filed on June 1, 2001).
10.2*	

	Form of Indemnification Agreement between the Registrant and certain directors and executives. (incorporated herein by reference from Exhibit (10.2) to the Registrant's Report on Form 10-K (File No. 001-12696), filed on May 31, 2005).
10.3.1*	Regular and Supplemental Bonus Plan (incorporated herein by reference from Exhibit (10.4(a)) to the Registrant's Report on Form 10-K (File No. 001-12696), filed on June 1, 2001).
10.3.2*	Overachievement Bonus Plan (incorporated herein by reference from Exhibit (10.4(b)) to the Registrant's Report on Form 10-K (File No. 001-12696), filed on June 1, 2001).

Table of Contents

10.4.1 Lease Agreement dated May 2004 between Finsa Portafolios, S.A. DE C.V.and Plamex, S.A. de C.V., a subsidiary of the Registrant, for premises located in Tijuana, Mexico (translation from Spanish original) (incorporated herein by reference from Exhibit (10.5.1) of the Registrant's Quarterly Report on Form 10-Q (File No. 001-12696), filed on August 6, 2004).

10.4.2 Lease Agreement dated May 2004 between Finsa Portafolios, S.A. DE C.V.and Plamex, S.A. de C.V., a subsidiary of the Registrant, for premises located in Tijuana, Mexico (translation from Spanish original) (incorporated herein by reference from Exhibit (10.5.2) of the Registrant's Quarterly Report on Form 10-Q (File No. 001-12696), filed on August 6, 2004).

10.4.3 Lease Agreement dated May 2004 between Finsa Portafolios, S.A. DE C.V.and Plamex, S.A. de C.V., a subsidiary of the Registrant, for premises located in Tijuana, Mexico (translation from Spanish original) (incorporated herein by reference from Exhibit (10.5.3) of the Registrant's Quarterly Report on Form 10-Q (File No. 001-12696), filed on August 6, 2004).

10.4.4 Lease Agreement dated October 2004 between Finsa Portafolios, S.A. DE C.V.and Plamex, S.A. de C.V., a subsidiary of the Registrant, for premises located in Tijuana, Mexico (translation from Spanish original) (incorporated herein by reference from Exhibit (10.5.4) of the Registrant's Quarterly Report on Form 10-Q (File No. 001-12696), filed on August 6, 2004).

10.5 Lease dated December 7, 1990 between Canyge Bicknell Limited and Plantronics Limited, a subsidiary of the Registrant, for premises located in Wootton Bassett, The United Kingdom (incorporated herein by reference from Exhibit (10.32) to the Registrant’s Registration Statement on Form S-1 (as amended) (File No.33-70744), filed on October 20, 1993).

10.6* Amended and Restated 2003 Stock Plan (incorporated herein by reference from the Registrant's Definitive Proxy Statement on Form 14-A (File No. 001-12696), filed on May 26, 2004).

10.7* 1993 Stock Option Plan (incorporated herein by reference from Exhibit (10.8) to the Registrant's Annual Report on Form 10-K (File No. 001-12696), filed on June 21, 2002).

10.8 1* 1993 Director Stock Option Plan (incorporated herein by reference from Exhibit (10.29) to the Registrant's Registration Statement on Form S-1 (as amended) (File No. 33-70744), filed on October 20, 1993).

10.8.2* Amendment to the 1993 Director Stock Option Plan (incorporated herein by reference from Exhibit (4.4) to the Registrant's Registration Statement on Form S-8 (File No. 333-14833), filed on October 25, 1996).

10.8.3* Amendment No. 2 to the 1993 Director Stock Option Plan (incorporated herein by reference from Exhibit (10.9(a)) to the Registrant's Report on Form 10-K (File No. 001-12696), filed on June 1, 2001).

10.8.4 * Amendment No. 3 to the 1993 Director Stock Option Plan (incorporated herein by reference from Exhibit (10.9(b)) to the Registrant's Report on Form 10-K (File No. 001-12696), filed on June 1, 2001).

10.8.5* Amendment No. 4 to the 1993 Director Stock Option Plan (incorporated herein by reference from Exhibit (10.9.5) to the Registrant's Annual Report on Form 10-K (File No. 001-12696), filed on June 21, 2002).

10.9.1* 2002 Employee Stock Purchase Plan (incorporated herein by reference from the Registrant's Definitive Proxy Statement on Form 14-A (File No. 001-12696), filed on June 3, 2005).

10.9.1	Trust Agreement Establishing the Plantronics, Inc. Annual Profit Sharing/Individual Savings Plan Trust (incorporated herein by reference from Exhibit (4.3) to the Registrant's Registration Statement on Form S-8 (File No. 333-19351), filed on January 7, 1997).
10.9.2*	Plantronics, Inc. 401(k) Plan, effective as of April 2, 2000 (incorporated herein by reference from Exhibit (10.11) to the Registrant's Report on Form 10-K (File No. 001-12696), filed on June 1, 2001).

64

10.10*	Resolutions of the Board of Directors of Plantronics, Inc. Concerning Executive Stock Purchase Plan (incorporated herein by reference from Exhibit (4.4) to the Registrant's Registration Statement on Form S-8 (as amended) (File No. 333-19351), filed on March 25, 1997).
10.11.1*	Plantronics, Inc. Basic Deferred Compensation Plan, as amended August 8, 1996 (incorporated herein by reference from Exhibit (4.5) to the Registrant's Registration Statement on Form S-8 (as amended) (File No. 333-19351), filed on March 25, 1997).
10.11.2	Trust Agreement Under the Plantronics, Inc. Basic Deferred Stock Compensation Plan (incorporated herein by reference from Exhibit (4.6) to the Registrant's Registration Statement on Form S-8 (as amended) (File No. 333-19351), filed on March 25, 1997).
10.11.3	Plantronics, Inc. Basic Deferred Compensation Plan Participant Election (incorporated herein by reference from Exhibit (4.7) to the Registrant's Registration Statement on Form S-8 (as amended) (File No. 333-19351), filed on March 25, 1997).
10.12.1*	Employment Agreement dated as of July 4, 1999 between Registrant and Ken Kannappan (incorporated herein by reference from Exhibit (10.15) to the Registrant's Annual Report on Form 10-K405 (File No. 001-12696), filed on June 1, 2000).
10.12.2*	Employment Agreement dated as of November 1996 between Registrant and Don Houston (incorporated herein by reference from Exhibit (10.14.2) to the Registrant's Annual Report on Form 10-K (File No. 001-12696), filed on June 2, 2003).
10.12.3*	Employment Agreement dated as of April 1997 between Registrant and Barbara Scherer (incorporated herein by reference from Exhibit (10.14.4) to the Registrant's Annual Report on Form 10-K (File No. 001-12696), filed on June 2, 2003).
10.12.4*	Employment Agreement dated as of June 2003 between Registrant and Philip Vanhoutte (incorporated herein by reference from Exhibit (10.12.4) to the Registrant's Annual Report on Form 10-K (File No. 001-12696), filed on May 31, 2005).
10.12.5*	Employment Agreement dated as of May 2001 between Registrant and Joyce Shimizu (incorporated herein by reference from Exhibit (10.14.5) to the Registrant's Annual Report on Form 10-K (File No. 001-12696), filed on June 2, 2003).
10.13.1	Credit Agreement dated as of July 31, 2003 between Registrant and Wells Fargo Bank N.A. (incorporated herein by reference from Exhibit (10.1) of the Registrant's Quarterly Report on Form 10-Q (File No. 001-12696), filed on November 7, 2003).
10.13.2	Credit Agreement Amendment No. 1 dated as of August, 1, 2004, between Registrant and Wells Fargo Bank N.A. (incorporated herein by reference from Exhibit (10.15.2) to the Registrant’s Quarterly Report on Form 10-Q (File No. 001- 12696), filed on November 5, 2004).
10.13.3	Credit Agreement Amendment No.2 dated as of July 11, 2005, between Registrant and Wells Fargo Bank National Association (incorporated herein by reference from Exhibit (10.15.1) to the Registrants Form 8-K (File No. 001-12696), filed on July 15, 2005).
10.13.4	

Credit Agreement Amendment No.3 dated as of August 11, 2005, between Registrant and Wells Fargo Bank National Association (incorporated herein by reference from Exhibit (10.2) to the Registrants Form 8-K (File No. 001-12696), filed on November 23, 2005).

10.13.5 Credit Agreement Amendment No.4 dated as of November 17, 2005, between Registrant and Wells Fargo Bank National Association (incorporated herein by reference from Exhibit (10.1) to the Registrants Form 8-K (File No. 001-12696), filed on November 23, 2005).

10.14* Restricted Stock Award Agreement dated as of October 12, 2004, between Registrant and certain of its executive officers (incorporated herein by reference from Exhibit (10.1) of the Registrant's Current Report on Form 8-K (File No. 001-12696), filed on October 14, 2004).

14	Worldwide Code of Business Conduct and Ethics (incorporated herein by reference from Exhibit (14) of the Registrant's Current Report on Form 10-K (File No. 001-12696), filed on May 31, 2005).
31.1	CEO’s Certification Pursuant to Rule 13a-14(a)/15d-14(a)
31.2	CFO’s Certification Pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the CEO and CFO
*	Indicates a management contract or compensatory plan, contract or arrangement in which any Director or any Executive Officer participates.