

any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

EXPLANATORY NOTE

This Amendment No. 1 on Form 8-K/A (this “Amendment”) amends the Current Report on Form 8-K of Plantronics, Inc. (“Plantronics” or the “Company”) dated July 2, 2018 and filed with the Securities and Exchange Commission on July 2, 2018 (the “Original Form 8-K”) to file the historical financial statement and pro forma financial information referred to in Item 9.01(a) and 9.01(b) relating to the Company’s acquisition of all of the issued and outstanding shares of capital stock of Polycom, Inc. Pursuant to the instructions to Item 9.01 of Form 8-K, the Company hereby amends Item 9.01 for the Original Form 8-K to provide in its entirety as follows:

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The following audited consolidated financial statements of Polycom, Inc. are attached hereto as Exhibit 99.2:

- Audited consolidated financial statements as of and for the years ended December 31, 2017 and 2016

The following audited consolidated financial statements of Polycom, Inc. are attached hereto as Exhibit 99.3:

- Audited consolidated financial statements as of and for the year ended December 31, 2015

The unaudited condensed consolidated financial statements of Polycom, Inc. as of March 31, 2018 and for the three months ended March 31, 2018 and 2017 are attached hereto as Exhibit 99.4.

(b) Unaudited Pro Forma Condensed Combined Financial Statements.

The following unaudited pro forma condensed combined financial statements of Plantronics, Inc. are attached hereto as Exhibit 99.5:

- Unaudited Pro Forma Condensed Combined Balance Sheet of Plantronics, Inc. as of March 31, 2018; and,
- Unaudited Pro Forma Condensed Combined Statement of Operations of Plantronics, Inc. for the year ended March 31, 2018.

(c) Not applicable.

(d) Exhibits

The following exhibits are filed as part of this Current Report on Form 8-K:

<u>Exhibit Number</u>	<u>Description</u>
<u>2.1</u>	<u>Stock Purchase Agreement, dated March 28, 2018, among Plantronics, Inc., Triangle Private Holdings II, LLC and Polycom, Inc.*</u>
<u>3.1</u>	<u>Amendment to the Amended and Restated Bylaws of Plantronics, Inc. effective July 2, 2018*</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of Plantronics, Inc. as amended through July 2, 2018*</u>
<u>4.1</u>	<u>Credit Agreement dated as of July 2, 2018 among Plantronics, Inc., as borrower, Wells Fargo Bank, National Association, as administrative agent, and the lenders from time to time party thereto*</u>
<u>10.1</u>	<u>Stockholder Agreement, dated July 2, 2018, between Plantronics, Inc. and Triangle Private Holdings II, LLC*</u>
<u>23.1</u>	<u>Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP</u>
<u>23.2</u>	<u>Consent of Independent Auditors, KPMG LLP</u>
<u>99.1</u>	<u>Press release issued by Plantronics, Inc. on July 2, 2018, entitled "Plantronics Completes Acquisition of Polycom"*</u>
<u>99.2</u>	<u>Audited consolidated financial statements of Polycom Inc. as of December 31, 2017 and 2016, and for the years then ended.</u>
<u>99.3</u>	<u>Audited consolidated financial statements of Polycom Inc. as of December 31, 2015 and for the year then ended.</u>
<u>99.4</u>	<u>Unaudited condensed consolidated financial statements of Polycom Inc. as of March 31, 2018 and for the three months ended March 31, 2018 and 2017.</u>
<u>99.5</u>	<u>Unaudited Pro Forma Condensed Combined Balance Sheet of Plantronics, Inc. as of March 31, 2018 and Unaudited Pro Forma Condensed Combined Statement of Operations of Plantronics, Inc. for the year ended March 31, 2018.</u>

* Previously filed

SIGNATURE

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

Plantronics, Inc.
(Registrant)

By: /s/ Pamela Strayer

Pamela Strayer
Executive Vice President and Chief Financial Officer

Dated: August 31, 2018

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Section 2: EX-23.1 (EXHIBIT 23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-215831, 333-207830, 333-190404, 333-188868, 333-183268, 333-177705, 333-170325, 333-162715, 333-152814, 333-146076, 333-140623, 333-131412, 333-127672, 333-120364, 333-107218, 333-97091, 333-221241) of Plantronics, Inc. of our report dated February 29, 2016 relating to the financial statements of Polycom, Inc., which appears in this Current Report on Form 8-K.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California
August 31, 2018

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Section 3: EX-23.2 (EXHIBIT 23.2)

Exhibit 23.2

Consent of Independent Auditors

We consent to the incorporation by reference in the registration statement on Form S-8 (Nos. 333-215831, 333-207830, 333-190404, 333-188868, 333-183268, 333-177705, 333-170325, 333-162715, 333-152814, 333-146076, 333-140623, 333-131412, 333-127672, 333-120364, 333-107218, 333-97091, 333-221241) of Plantronics, Inc. of our report dated March 26, 2018, with respect to the consolidated balance sheets of Polycom, Inc. as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes, which report appears in the Form 8-K of Plantronics dated August 31, 2018.

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Section 4: EX-99.2 (EXHIBIT 99.2)

Exhibit 99.2



Polycom, Inc.

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

POLYCOM, INC.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
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Independent Auditors' Report

The Board of Directors
Polycom, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Polycom, Inc. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the related consolidated statement of operations, statement of comprehensive income (loss), stockholders' (deficit) equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Polycom, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Santa Clara, California
March 26, 2018

POLYCOM, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31,	
	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 86,005	\$ 100,075
Trade receivables, net	134,622	107,640
Inventories	71,293	110,113
Prepaid expenses and other current assets	29,683	34,680
Total current assets	<u>321,603</u>	<u>352,508</u>
Property and equipment, net	61,705	81,236
Goodwill	502,809	558,307
Purchased intangibles, net	918	5,582
Deferred taxes	64,878	89,606
Other assets	18,481	20,705
Total assets	<u>\$ 970,394</u>	<u>\$ 1,107,944</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 68,042	\$ 82,246
Accrued payroll and related liabilities	54,478	30,114
Income taxes payable	4,929	2,318
Deferred revenue	172,538	166,894
Current portion of long-term debt	11,736	6,830
Other accrued liabilities	69,073	77,200
Total current liabilities	<u>380,796</u>	<u>365,602</u>
Long-term deferred revenue	82,800	78,806
Income taxes payable	9,072	8,622
Long-term debt	694,854	828,822
Other non-current liabilities	75,438	22,393
Total liabilities	<u>\$ 1,242,960</u>	<u>\$ 1,304,245</u>
Commitments and contingencies (Note 10)		
Stockholders' deficit		
Common stock, \$0.001 par value; authorized: 101,000 shares; issued and outstanding: 100,100 shares at December 31, 2017 and 2016	\$ —	\$ —
Additional paid-in capital	138,394	138,394
Accumulated deficit	(409,089)	(329,048)
Accumulated other comprehensive loss	(1,871)	(5,647)
Total stockholders' deficit	<u>\$ (272,566)</u>	<u>\$ (196,301)</u>
Total liabilities and stockholders' deficit	<u>\$ 970,394</u>	<u>\$ 1,107,944</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)

	Year Ended December 31,	
	2017	2016
Revenues		
Product revenues	\$ 820,416	\$ 782,584
Service revenues	322,363	340,342
Total revenues	<u>1,142,779</u>	<u>1,122,926</u>
Cost of revenues		
Cost of product revenues	378,355	373,314
Cost of service revenues	117,642	128,610
Total cost of revenues	<u>495,997</u>	<u>501,924</u>
Gross profit	<u>646,782</u>	<u>621,002</u>
Operating expenses		
Sales and marketing	270,690	327,789
Research and development	135,655	170,370
General and administrative	69,135	92,870
Amortization of purchased intangibles	4,664	8,250
Amortization of goodwill	56,021	—
Restructuring costs	9,090	26,437
Litigation reserves and payments	673	1,870
Transaction-related costs	6,090	121,761
Total operating expenses	<u>552,018</u>	<u>749,347</u>
Operating income (loss)	94,764	(128,345)
Interest and other income (expense), net		
Interest expense	(78,677)	(27,833)
Other income (expense), net	(52,749)	2,287
Interest and other income (expense), net	<u>(131,426)</u>	<u>(25,546)</u>
Loss before provision for income taxes	(36,662)	(153,891)
Provision for income taxes	43,379	31,875
Net loss	<u>\$ (80,041)</u>	<u>\$ (185,766)</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Year Ended December 31,	
	2017	2016
Net loss	\$ (80,041)	\$ (185,766)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	3,336	(4,261)
Unrealized gains/losses on investments:		
Unrealized holding gains arising during the period	—	254
Net gains reclassified into earnings	—	(57)
Net unrealized gains on investments	—	197
Gains/losses on hedging securities:		
Unrealized hedge losses arising during the period	—	(1,810)
Net losses (gains) reclassified into earnings for revenue hedges	151	(2,837)
Net losses reclassified into earnings for expense hedges	288	4,267
Net gains (losses) on hedging securities	439	(380)
Other comprehensive income (loss)	3,775	(4,444)
Comprehensive loss	<u>\$ (76,266)</u>	<u>\$ (190,210)</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balances, December 31, 2015	132,665,165	\$ 66	\$ 1,167,701	\$ (1,203)	\$ (113,355)	\$ 1,053,209
Net loss	—	—	—	—	(185,766)	(185,766)
Other comprehensive loss	—	—	—	(4,443)	—	(4,443)
Issuance of vested performance shares and restricted stock units	2,999,828	1	(1)	—	—	—
Exercise of stock options under stock option plan	28,042	—	326	—	—	326
Shares purchased under employee stock purchase plan	1,236,759	1	10,705	—	—	10,706
Purchase and retirement of common stock at cost	(1,002,004)	—	(10,558)	—	—	(10,558)
Stock-based compensation	—	—	95,376	—	—	95,376
Tax expense for stock-based award activity	—	—	5,150	—	—	5,150
Cancellation of outstanding shares	(135,927,790)	(69)	(1,699,029)	—	—	(1,699,098)
Cancellation of director and employee unvested stock awards and vested and unvested stock options	—	—	(90,276)	—	—	(90,276)
Issuance of common stock to Parent	100,100	—	659,000	—	—	659,000
Distribution to Parent	—	—	—	—	(29,927)	(29,927)
Balances, December 31, 2016	100,100	—	\$ 138,394	\$ (5,646)	\$ (329,048)	\$ (196,301)
Net loss	—	—	—	—	(80,041)	(80,041)
Other comprehensive income	—	—	—	3,775	—	3,775
Balances, December 31, 2017	100,100	—	\$ 138,394	\$ (1,871)	\$ (409,089)	\$ (272,566)

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(in thousands)

	Year Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (80,041)	\$ (185,766)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	37,366	45,345
Amortization of goodwill	56,021	—
Amortization of purchased intangibles	4,664	8,483
Amortization of capitalized software development costs for products to be sold	4,319	4,530
Amortization of debt issuance costs	13,963	3,296
Amortization of discounts and premiums on investments, net	—	796
Write-down of excess and obsolete inventories	16,626	11,596
Stock-based compensation expense	—	94,893
Excess tax benefits from stock-based compensation expense	—	(6,903)
Loss on disposal of property and equipment	1,076	294
Unrealized loss on mark-to-market of derivative	55,908	—
Realized loss on cash flow hedges	439	1,036
Loss on debt extinguishment	—	1,028
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	(26,031)	79,436
Inventories	23,370	(32,455)
Deferred taxes	24,860	(30,744)
Prepaid expenses and other assets	5,442	43,521
Accounts payable	(13,944)	10,235
Taxes payable	3,012	4,931
Other accrued liabilities and deferred revenue	21,782	(42,475)
Net cash provided by operating activities	148,832	11,077
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(17,900)	(25,653)
Capitalized software development costs for products to be sold	(2,874)	(2,497)
Purchases of investments	—	(78,222)
Proceeds from sales of investments	—	111,862
Proceeds from maturities of investments	—	196,539
Net cash (used in) provided by investing activities	(20,774)	202,029
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock under employee option and stock purchase plans	—	11,031
Proceeds from debt, net of debt issuance costs	—	857,525
Payments on debt	(134,751)	(260,627)
Issuance costs related to loans	(7,931)	(1,720)
Purchase and retirement of common stock for tax withholdings on vesting of employee stock-based awards	—	(10,558)
Excess tax benefits from stock-based compensation expense	—	6,903
Payment of officer and employee unvested stock awards	—	(90,276)
Issuance of common stock to Parent	—	659,000
Distribution to Parent	—	(29,927)
Payment for cancellation of outstanding shares in accordance with Merger	—	(1,687,307)
Net cash used in financing activities	(142,682)	(545,956)

Effect of exchange rate changes on cash and cash equivalents	554	(2,168)
Net decrease in cash and cash equivalents	(14,070)	(335,018)
Cash and cash equivalents, beginning of period	100,075	435,093
Cash and cash equivalents, end of period	\$ 86,005	\$ 100,075
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 66,704	\$ 21,477
Cash paid for income taxes	\$ 6,387	\$ 20,562
Purchases of property and equipment included in accounts payable	\$ 2,459	\$ 1,762
Accrual for cancellation of outstanding shares in accordance with Merger	\$ —	\$ 11,791

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Description of Business

Polycom, Inc. (“Polycom” or “the Company”) is a leading global provider of high-quality, easy-to-use collaboration solutions that enable enterprise, government, education and healthcare customers to more effectively collaborate over distance, time zones and organizational boundaries. The Company’s solutions are built on architectures that enable unified video, voice and content communications.

Polycom was incorporated in the state of Delaware in December 1990.

On September 27, 2016, (the “Closing Date”), the Company was acquired by Triangle Private Holdings I, LLC, an entity affiliated with Siris Capital Group, LLC (“Siris”) for \$12.50 in cash for each share of the Polycom common stock (the “Merger”). Siris paid approximately \$1.7 billion for all of the Company’s 135,927,790 common shares which were issued and outstanding immediately prior to the Merger, and \$90.3 million on employee/director unvested equity awards and vested but unexercised stock options. All balances owed on the existing debt facility, consisting of \$232.8 million in principal and approximately \$0.9 million in accrued interest and fees were settled. The residual cash after the aforementioned payments, and payments of buy-side and sell-side transaction-related costs of \$29.9 million and \$131.5 million, respectively, was retained by Polycom. The buy-side transaction-related costs, consisting primarily of financial advice, due diligence and legal fees, were paid by the Company on behalf of the Parent and have been recorded as a “Distribution to Parent” in the Company’s Consolidated Financial Statements. As of the acquisition date, Polycom became a wholly owned subsidiary of Triangle Private Holdings II, LLC (“the Parent”) and its stock is no longer publicly traded. On the Closing Date, 100,100 shares of Polycom, Inc. were issued to the Parent in consideration for payment of the Merger. Triangle Private Holdings II, LLC is a wholly owned subsidiary of Triangle Private Holdings I, LLC.

In September 2016, simultaneously with the Merger, the Parent entered into a new credit agreement that provides for term loans in an aggregate principal amount of \$925 million and a revolving credit facility of \$50 million. Immediately following the Merger, the Parent assigned all of its rights and obligations as the initial borrower to Polycom. See Note 7 - Debt for further details.

In accordance with the amendments in ASU 2014-17, which provides the acquiree the option of either applying or not applying pushdown accounting in stand-alone financial statements upon a change in control event, the Parent elected not to apply pushdown accounting in the accompanying Consolidated Financial Statements after the Merger. As a result, the Merger did not change the Company’s retained earnings or the historical values of its asset and liabilities.

Principles of Accounting and Consolidation

These Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that effect the amounts reported in the Company’s Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements. Significant items subject to such estimates and assumptions include revenue, sales returns and other revenue related reserves, allowance for doubtful accounts, inventory valuation and purchase commitments, product warranty obligations, the useful lives of long-lived assets including property, plant and equipment, facilities-related restructuring reserves and related sublease assumptions, fair value of derivative instruments, stock-based compensation, income taxes and other contingencies. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company regularly performs credit evaluations of its customers' financial condition and considers factors such as historical experience, credit quality, age of the accounts receivable balances, and geographic or country-specific risks and economic conditions that may affect a customers' ability to pay. The allowance for doubtful accounts is reviewed periodically and adjusted if necessary based on the Company's assessment of its customer's ability to pay.

Inventories

Inventories, which are comprised primarily of finished goods, are valued at the lower of cost or market with cost computed on a first-in, first-out (FIFO) basis. Consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. The Company records write-downs for excess and obsolete inventory equal to the difference between the carrying value of inventory and the estimated future selling price based upon assumptions about future product life-cycles, product demand and market conditions. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally from one to seven years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the related assets, typically three to thirteen years. Disposals of capital equipment are recorded by removing the costs and accumulated depreciation from the accounts and gains or losses on disposals are included in "Operating expenses" in the Company's Consolidated Statements of Operations.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. Until December 31, 2016, goodwill was not amortized but was reviewed for potential impairment annually and wherever triggering events were identified.

Effective January 1, 2017, considering the change in the Company's status from a public to a private company for the first full fiscal year, the Company made a policy election and adopted the simplified goodwill accounting alternative made available by the FASB for private companies in ASU 2014-02, *Intangibles-Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)* and began amortizing goodwill over 10 years on a prospective basis. The alternative allows for the use of a simplified, trigger-based impairment model that allows an accounting policy election of assessing impairment at either the entity-wide level or the reporting unit level. The Company elected to adopt the simpler entity-wide level rather than the reporting unit level, for assessing impairment. The Company may revise the remaining useful life of goodwill upon the occurrence of events and changes in circumstances that warrant a revision to the remaining period of amortization, in which case the remaining carrying amount of goodwill shall be amortized prospectively on a straight-line basis over that revised remaining useful life. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the fair value of an entity (or a reporting unit) may be below its carrying amount using either a qualitative or quantitative analysis. The goodwill impairment amount, if any, represents the excess of entity's carrying amount over its fair value.

Long-Lived Assets

Purchased intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from several months to six years. Purchased intangible assets determined to have indefinite useful lives are not amortized. Long-lived assets, including purchased intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset or group of assets and their eventual disposition. The Company periodically assesses the remaining useful lives of long-lived assets. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell.

Warranty

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

Deferred Services Revenue

The Company offers maintenance services on most of its products which allow for customers to receive maintenance support in addition to the contractual product warranty. The Company also provides managed services and subscription based services to its customers under contractual arrangements. The Company recognizes the consideration from maintenance, managed services, and subscription based services as deferred revenue and amortizes to service revenues over the life of the service contract.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, title and risk of loss have transferred, the price is fixed or determinable, and collectability is reasonably assured. Additionally, the Company recognizes maintenance service revenues on its hardware and software products ratably over the service periods which generally range from one to five years, and other services upon the completion of implementation or professional services provided.

Most of the Company's products are integrated with software that is essential to the functionality of the equipment. Additionally, the Company provides unspecified software upgrades and enhancements related to most of these products through maintenance contracts.

A multiple-element arrangement includes the sale of one or more tangible product offerings with one or more associated services offerings, each of which are individually considered separate units of accounting. The Company allocates revenue to each element in a multiple-element arrangement based upon the relative selling price of each deliverable. When applying the relative selling price method, the Company determines the selling price for each deliverable using vendor specific objective evidence ("VSOE") of selling price, if it exists, or third-party evidence ("TPE") of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, the Company uses its best estimate of selling price ("ESP") for that deliverable. Revenue allocated to each element is then recognized when all of the other revenue recognition criteria are met for each element.

VSOE is established based on the Company's standard pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range.

When VSOE cannot be established, the Company attempts to establish the selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately.

When the Company is unable to establish the selling price using VSOE or TPE, the Company uses ESP in its allocation of revenue for the arrangement. ESP represents the price at which the Company would transact a sale if the element were sold on a stand-alone basis. The Company determines ESP for a product by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, and pricing practices. The determination of ESP is made based on review of historical sales price, taking into consideration the Company's go-to-market strategy. Generally, the Company uses historical net selling prices to establish ESP. The Company regularly reviews its basis for establishing VSOE, TPE and ESP.

Our multiple-element arrangements may include the sale of non-software deliverables and one or more software deliverables that are subject to the software revenue recognition guidance. In these cases, revenue for the software is generally recognized upon delivery of the software license. The revenue for these multiple-element arrangements is allocated to the software deliverables and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using the hierarchy in the applicable accounting guidance as noted above. If the Company cannot determine VSOE or TPE of the selling price for all of the deliverables in the arrangement, including the software deliverables, ESP is used for allocation purposes. VSOE is required to allocate the revenue between multiple software deliverables. The Company will apply the residual method if VSOE is available for the undelivered software elements. If VSOE is not available, software revenue is recognized when all software elements have been delivered or recognized ratably when post-contract support is the only undelivered software element.

Sales Returns, Channel Partner Programs and Incentives

The Company's contracts generally do not provide for a right of return on any of its products. However, contracts with some of its distributors contain stock rotation rights. The Company records an estimate of future returns based upon these contractual rights and the Company's historical returns experience. The Company records estimated reductions to revenues for channel partner rebate programs and incentive offerings including special pricing agreements, promotions and other volume-based incentives. The Company also accrues for joint marketing funds as a marketing expense if the Company receives a separable and identifiable benefit in exchange and can reasonably estimate the fair value of the identifiable benefit received; otherwise, it is recorded as a reduction to revenues.

Research and Development and Software Development Costs

The Company expenses research and development costs as incurred.

Software development costs incurred prior to the establishment of technological feasibility are included in research and development costs as incurred. Eligible and material software development costs are capitalized upon the establishment of technological feasibility and before the general availability of such software products, including direct labor and related overhead costs, as well as stock-based compensation prior to the Merger. The Company has defined technological feasibility as the establishment of a working model, which typically occurs when beta testing commences. The Company capitalized approximately \$2.9 million and \$3.0 million of development costs in 2017 and 2016, respectively, for software products to be marketed or sold to customers. The capitalized costs are included in "Other assets" in the Company's Consolidated Balance Sheets and are being amortized on a product-by-product basis using the straight-line method over the estimated product life, generally three years, or on the ratio of current revenues to total projected product revenues, whichever is greater. At each balance sheet date, management assesses the net realizable value of the products. As of December 31, 2017, management believes that the capitalized software costs will be recoverable from future gross profits generated by these products.

Advertising

The Company expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2017 and 2016 was \$9.9 million and \$11.7 million, respectively.

Income Taxes

The Company accounts for income taxes under the liability method, which recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets when, based on available objective evidence, it is more likely than not that the benefit of such assets will not be realized.

The Company recognizes and measures benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained upon audit, including resolution of any related appeals or litigation processes. For tax positions that are more likely than not to be sustained upon audit, the second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement. Significant judgment is required to evaluate uncertain tax positions. The Company evaluates its uncertain tax positions on a periodic basis. Evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in income tax expense in the period in which the change is made, which could have a material impact on the Company's effective tax rate and operating results. The Company recognizes interest and/or penalties related to income tax matters in "Provision for income taxes" in the Company's Consolidated Statements of Operations.

Foreign Currency Translation

Assets and liabilities of non-U.S. subsidiaries, where the local currency is the functional currency, are translated to U.S. dollars at exchange rates in effect at the balance sheet date and income and expense accounts are translated at average exchange rates in effect during the period. The resulting translation adjustments are directly recorded to a separate component of "Accumulated other comprehensive loss" in the Company's Consolidated Balance Sheets. Foreign exchange transaction gains and losses from the remeasurement of non-functional currency denominated assets and liabilities are included in the Company's Consolidated Statements of Operations as part of "Interest and other income (expense), net".

Derivative Instruments

The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated and qualifying as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a separate component of "Accumulated other comprehensive loss" in the Company's Consolidated Statements of Stockholders' Equity (Deficit) and is subsequently reclassified into earnings when the hedged exposure affects earnings. The excluded and ineffective portions of the gain or loss are reported in "Interest and other income (expense), net" in the Company's Consolidated Statements of Operations immediately. The cash flow hedge is deemed to be ineffective if the underlying forecasted transaction does not occur, or it becomes probable that it will not occur. For derivative instruments that are not designated as cash flow hedges, changes in fair value are recognized in "Interest and other income (expense), net" in the

Consolidated Statements of Operations in the period of change. The Company does not hold or issue derivative financial instruments for speculative trading purposes. In September 2016, simultaneously with the Merger, the Company closed out all its then outstanding hedge contracts. In February 2017, the Company entered into long-term cross-currency swap transactions intended to protect its financial results from fluctuations in the Euro over the next five years as a portion of its revenues is denominated in Euros. The swap transactions did not qualify for hedge accounting and are treated as non-designated or economic hedges. The Company enters into derivatives only with counterparties that are large and established global banks with stable to high credit ratings, in order to minimize its credit risk.

Fair Value Measurements

The Company has certain financial assets and liabilities recorded at fair value which have been classified as Level 2 or 3 within the fair value hierarchy. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices for similar assets in active markets, or identical or similar assets in inactive markets, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including its foreign currency contracts.

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

In addition, the Company has facilities-related liabilities related to restructuring which were calculated based on the discounted future lease payments less sublease assumptions. This non-recurring fair value measurement is classified as a Level 3 measurement under ASC 820. The key assumptions used in the valuation model include discount rates, cash flow projections and estimated sublease income. These assumptions involve significant judgment, and are based on management's estimate of current and forecasted market conditions and are sensitive and susceptible to change. The carrying amounts reflected in the Company's Consolidated Balance Sheets for cash and cash equivalents, trade receivables, accounts payable, and other current accrued liabilities approximate fair value due to their short-term maturities.

Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, thereby improving the usefulness of information reported to financial statement users. The update also requires certain disclosures about stranded tax effects. The standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The amendments in this update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has estimated and recorded the effect of the Tax Cuts and Jobs Act on its financial statements at December 31, 2017 and its position is subject to remeasurement before December 31, 2018. The Company is evaluating the impact of such remeasurement on its consolidated financial statements and disclosures.

In January 2017, the FASB issued an accounting standard update that clarifies the definition of a business to help companies evaluate whether acquisition or disposal transactions should be accounted for as asset groups or as businesses. The standard is effective for fiscal years beginning after December 15, 2018 and interim reporting periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and disclosures.

In October 2016, the FASB issued an accounting standard update which improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The standard is effective for fiscal years beginning after December 15, 2018 and interim reporting periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In August 2016, the FASB issued an accounting standard update which amends the current guidance for the classification of certain receipts and cash payments on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In February 2016, the FASB issued an accounting standard update which requires a lessee to generally recognize a right-of-use asset and a lease liability on the balance sheet. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The standard will be applied using a modified retrospective approach. The Company is evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In May 2014, the FASB issued an accounting standard update which provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued an accounting standard update to defer the effective date by one year to December 15, 2018 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt the standard. In March 2016, the FASB issued an accounting standard update which clarifies the

principal versus agent assessment in the new revenue recognition guidance. In April 2016, the FASB issued an accounting standard update which clarifies identifying performance obligations and the licensing implementation guidance in the new revenue recognition guidance. In May 2016, the FASB issued an accounting standard update which provides various narrow-scope improvements and practical expedients related to the new revenue recognition guidance. In December 2016, the FASB issued an accounting standard update which provides various narrow-scope improvements. The standard, as amended is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019.

The Company will adopt the new standard using the modified retrospective method. The Company is in the process of establishing new accounting policies, implementing systems, processes, and internal controls necessary to support the requirements of the standard. The Company has completed its preliminary assessment of the financial statement impact of the new standard, and will continue to update that assessment during the implementation phase as information becomes available. The Company expects that the standard will not have a material impact on total revenues in the year of adoption as it will primarily impact revenue recognition for its software arrangements.

The standard will require incremental contract acquisition costs, such as sales commissions for customer contracts to be capitalized, and amortized if certain criteria are met. The Company's current policy is to expense these costs as incurred. The Company is in the process of evaluating the potential effects on capitalization of these costs.

3. Accounts Receivable Financing

The Company has a financing agreement with an unrelated third-party financing company (the "Financing Agreement") whereby the Company offers distributors and resellers direct or indirect financing on their purchases of the Company's products and services. In return, the Company agrees to pay the financing company a fee based on a pre-defined percentage of the transaction amount financed. In certain instances, these financing arrangements result in a transfer of our receivables, without recourse, to the financing company. If the transaction meets the applicable criteria under Accounting Standards Codification ("ASC") 860 and is accounted for as a sale of financial assets, the related accounts receivable is excluded from the balance sheet upon the third-party financing company's payment remittance to the Company. In certain legal jurisdictions, the arrangements that involve maintenance services or products bundled with maintenance at one price do not qualify as a sale of financial assets in accordance with the authoritative guidance. Accordingly, accounts receivable related to these arrangements are accounted for as a secured borrowing in accordance with ASC 860, and the Company records a liability for any cash received, while maintaining the associated accounts receivable balance until the distributor or reseller remits payment to the third-party financing company.

In 2017 and 2016, total transactions entered pursuant to the terms of the Financing Agreement were approximately \$220.6 million and \$217.5 million, respectively, of which \$136.2 million and \$121.1 million, respectively, were related to the transfer of the financial assets arrangement. The financing of these receivables accelerated the collection of the Company's cash and reduced its credit exposure. Included in "Trade receivables, net" in the Company's Consolidated Balance Sheets as of December 31, 2017 and 2016 was approximately \$35.6 million and \$34.0 million, respectively due from the financing company, of which \$21.7 million and \$15.2 million, respectively, was related to the accounts receivable transferred. Fees incurred pursuant to the Financing Agreement were approximately \$3.5 million for each of the fiscal years ended December 31, 2017 and 2016. Those fees were recorded as a reduction to "Revenues" in the Company's Consolidated Statements of Operations.

4. Goodwill, Purchased Intangibles, and Software Development Costs

The following table summarizes the changes in carrying amount of goodwill for the period presented (in thousands):

Balance at December 31, 2016	\$	558,307
Goodwill amortization		(56,021)
Foreign currency translation		523
Balance at December 31, 2017	\$	<u>502,809</u>

No impairment charges related to the Company's goodwill were recognized in the years ended December 31, 2017 and 2016.

The following table sets forth details of the Company's total purchased intangible assets and capitalized software development costs for products to be sold as of the following periods (in thousands):

	December 31, 2017			December 31, 2016		
	Gross Value	Accumulated Amortization & Impairment	Net Value	Gross Value	Accumulated Amortization & Impairment	Net Value
Customer and partner relationships	\$ 79,525	\$ (79,525)	\$ —	\$ 79,525	\$ (74,861)	\$ 4,664
Finite-lived intangible assets	79,525	(79,525)	—	79,525	(74,861)	4,664
Indefinite-lived trade name	918	—	918	918	—	918
Total acquired intangible assets	\$ 80,443	\$ (79,525)	\$ 918	\$ 80,443	\$ (74,861)	\$ 5,582
Capitalized software development costs for products to be sold	\$ 18,849	\$ (13,849)	\$ 5,000	\$ 15,975	\$ (9,531)	\$ 6,444

The Company determined that a purchased trade name intangible of \$0.9 million had an indefinite life as the Company expects to generate cash

flows related to this asset indefinitely. No impairment charges related to the Company's purchased intangible assets were recognized in the years ended December 31, 2017 and 2016.

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

	Year Ended December 31,	
	2017	2016
Amortization of purchased intangibles in cost of product revenues	\$ —	\$ 233
Amortization of purchased intangibles in operating expenses	4,664	8,250
Total amortization expenses of purchased intangibles	\$ 4,664	\$ 8,483

5. Balance Sheet Details

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

	December 31,	
	2,017	2,016
Gross trade receivables	\$ 196,332	\$ 169,555
Returns and other reserves	(59,818)	(58,995)
Allowance for doubtful accounts	(1,892)	(2,920)
Total	\$ 134,622	\$ 107,640

Inventories consist of the following (in thousands):

	December 31,	
	2017	2016
Raw materials	\$ 1,421	\$ 260
Work in process	7	—
Finished goods	69,865	109,853
Total	\$ 71,293	\$ 110,113

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

	December 31,	
	2017	2016
Non-trade receivables	\$ 6,586	\$ 6,193
Prepaid expenses	20,835	27,060
Other current assets	2,262	1,427
Total	\$ 29,683	\$ 34,680

Property and equipment, net, consist of the following (in thousands):

	Estimated useful Life	December 31,	
		2017	2016
Computer equipment and software	3 to 5 years	\$ 270,337	\$ 325,845
Equipment, furniture and fixtures	1 to 7 years	105,818	114,897
Tooling equipment	3 years	13,124	17,675
Leasehold improvements	3 to 13 years	52,911	58,179
Total gross property and equipment		442,190	516,596
Less: Accumulated depreciation and amortization		(380,485)	(435,360)
Total		\$ 61,705	\$ 81,236

Deferred revenue consists of the following (in thousands):

	December 31,	
	2017	2016
Short-term:		
Service	\$ 163,036	\$ 160,680

License		9,502	6,214
Total		\$ 172,538	\$ 166,894
Long-term:			
Service		\$ 75,645	\$ 74,146
License		7,155	4,660
Total		\$ 82,800	\$ 78,806

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

	December 31,	
	2017	2016
Accrued expenses	\$ 27,848	\$ 24,757
Accrued co-op expenses	1,798	2,149
Restructuring reserves	6,409	16,307
Warranty obligations	8,808	8,183
Other accrued liabilities	24,210	25,804
Total	\$ 69,073	\$ 77,200

Changes in the warranty obligations in 2017 and 2016 are as follows (in thousands):

	Year Ended December 31,	
	2017	2016
Balance at beginning of period	\$ 8,183	\$ 10,172
Accruals for warranties issued during the period	12,098	10,309
Charges against warranty reserve during the period	(11,473)	(12,298)
Balance at end of period	\$ 8,808	\$ 8,183

6. Restructuring Costs

In 2017 and 2016, the Company recorded \$9.1 million and \$26.4 million, respectively, related to various restructuring actions that included contract termination costs associated with the consolidation and elimination of certain facilities and employee-related severance charges associated with the elimination or relocation of various positions. Employee-related severance charges are largely based upon approved severance plans, while some charges result from mandated requirements in certain foreign jurisdictions. These charges are reflected in the period when both the actions are probable and the amounts are estimable. Contract termination costs for leased facilities primarily reflect costs that will continue to be incurred under the contract for its remaining term without economic benefit to the Company. These charges are reflected in the period when the facility ceases to be used. These actions are generally intended to streamline and focus the Company's efforts and more properly align the Company's cost structure with its projected future revenue streams.

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

	Severance/Other	Facilities	Other	Total
Balance at December 31, 2015	\$ 8,072	\$ 18,455	\$ 801	\$ 27,328
Additions to the reserve, net	21,766	3,683	—	25,449
Interest accretion	—	988	—	988
Non-cash adjustments	—	(6)	—	(6)
Cash payments	(20,678)	(8,054)	(801)	(29,533)
Balance at December 31, 2016	9,160	15,066	—	24,226
Additions to the reserve, net	3,564	4,797	—	8,361
Interest accretion	—	729	—	729
Non-cash adjustments	(264)	(252)	—	(516)
Cash payments	(11,412)	(7,892)	—	(19,304)
Balance at December 31, 2017	\$ 1,048	\$ 12,448	\$ —	\$ 13,496

The reserves are recorded in "Other accrued liabilities" for the short-term portion and in "Other non-current liabilities" for the long-term portion in the Consolidated Balance Sheets.

During the fourth quarter of 2016, management initiated actions to reduce or eliminate certain leased facilities and eliminate approximately 10 percent of the global workforce. These actions were designed to focus on the products, services, customers, partners and markets that are aligned

to the Company's greatest opportunities and allow it to drive success going forward. In the fourth quarter of 2016, the Company recorded approximately \$12.4 million of charges for severance and other one-time employee benefits for the individuals impacted by the December 2016 actions and approximately \$0.1 million of charges for the facilities restructure. The restructuring charges in 2016 also include approximately \$9.3 million for severance charges for certain employees and approximately \$4.1 million for facilities-related charges as part of discrete follow-on actions primarily related to the 2015 actions, and a net credit for adjustments of approximately \$0.4 million related to a change in assumptions used in our facilities-related restructuring reserves estimate.

During 2017, the Company recorded approximately \$3.6 million of charges of severance and other one-time employee benefits and other expenses for the individuals impacted by the December 2016 actions who were notified during 2017. Facilities-related restructure includes charges incurred for reduction of certain leased facilities during the year of approximately \$4.7 million, adjustments to taxes and common area maintenance charges of approximately \$0.7 million and buy out of an existing sub-lease, partially offset by new sublease income and changes in assumptions used in the facilities-related restructuring reserves estimate of approximately \$0.6 million.

As of December 31, 2017, the Company has substantially completed all the reductions initiated under the December 2016 actions and does not anticipate incurring any more expenses in this regard. As of December 31, 2017, the restructuring reserve was primarily comprised of severance, which is expected to be paid in the first quarter of fiscal 2018, and facilities-related liabilities which will continue to incur charges over the life of the leases ranging from 2018 to 2023. At the time the reserve is initially set up, the Company calculates the fair value of its facilities-related liabilities based on the discounted future lease payments less sublease assumptions. To the extent that actual sublease income, the timing of subleasing the facility, or the associated cost of, or the recorded liability related to subleasing or terminating the Company's lease obligations for these facilities is different than initial estimates, the Company adjusts its restructuring reserves in the period during which such information becomes known.

7. Debt

In September 2013, the Company entered into a Credit Agreement (the "2013 Credit Agreement") that provided for a \$250.0 million term loan (the "2013 Term Loan") maturing on September 13, 2018, which bore interest at the Company's option at either a base rate plus a spread of 0.50% to 1.00%, or a reserve adjusted LIBOR rate plus a spread of 1.50% to 2.00% based on the Company's consolidated leverage ratio for the preceding four fiscal quarters. The 2013 Term Loan was payable in quarterly installments of principal equal to approximately \$1.6 million which began on December 13, 2013, with the remaining outstanding principal amount being due and payable on the 2018 maturity date. In connection with the Merger, on September 27, 2016, Polycom repaid all of the outstanding obligations in respect of principal, interest, and fees under the 2013 Credit Agreement. No penalties were paid in connection with such repayments.

In September 2016, simultaneously with the Merger, the Parent entered into a new credit agreement (the "2016 Credit Agreement") that provides for term loans in an aggregate principal amount of \$925 million (the "2016 Term Loans") consisting of a \$750 million first lien term loan ("1st Lien Term Loan") maturing on September 27, 2023 ("1st Lien Maturity Date") and a \$175 million second lien term loan ("2nd Lien Term Loan") maturing on September 27, 2024 ("2nd Lien Maturity Date") and a revolving credit facility of \$50 million (the "Revolver") which terminates on September 27, 2021 ("Revolver Termination Date"). Immediately following the Merger, the Parent assigned all of its rights and obligations as the initial borrower to the Company. The 1st Lien Term Loan and the Revolver bore interest at the Company's option, at either a base rate plus a spread of 5.00% to 5.50% or a LIBOR rate plus a spread of 6.00% to 6.50%, based on the 1st Lien Term Loan leverage ratio at the end of the previous period. The 1st Lien Term Loan is payable in quarterly installments of principal equal to approximately \$4.7 million for the first eight quarters which began on the last business day of the quarter ended December 31, 2016, and increasing thereafter with the remaining outstanding principal amount being due and payable on the 1st Lien Maturity Date. The Company could prepay the 1st Lien Term Loan, in whole or in part, at any time without premium or penalty. Amounts repaid or prepaid could not be borrowed again.

On January 31, 2017, the 1st Lien Term Loan was amended to replace the existing debt of \$710.3 million at the borrowing rate stated above with a replacement debt at a lower borrowing rate. The new interest rate, at the Company's option, is either a base rate plus a spread of 3.75% to 4.25% or a LIBOR rate plus a spread of 4.75% to 5.25%, based on the 1st Lien Term Loan leverage ratio at the end of the previous period. All other terms and conditions of the 1st Lien Term Loan agreement remained the same as prior to the amendment. The Company paid a 1% re-finance premium and \$0.7 million in other fees and expenses. The debt amendment was treated as modification of the existing debt and the re-finance premium and other fees and expenses were added to the pool of debt issuance costs being amortized over the term of the 1st Lien Term Loan.

The 2nd Lien Term Loan bears interest at the Company's option, at a base rate plus a spread of 9.0% or a LIBOR rate plus a spread of 10.0%. The outstanding principal amount on the 2nd Lien Term Loan is due and payable on the 2nd Lien Maturity Date with no option to prepay. The 2016 Term Loans are secured by substantially all the assets of the Company and certain domestic subsidiaries of the Company that are guarantors under the 2016 Credit Agreement, subject to certain exceptions and limitations. As of December 31, 2017, the Company has collateralized secured letters of credit of \$0.7 million using the Revolver. No other drawdowns have been made against the Revolver.

The 2016 Credit Agreement contains customary affirmative and negative covenants, and financial covenants consisting of a Total Leverage ratio. The Company was in compliance with these covenants as of December 31, 2017 and through the date of the issuance of these Consolidated Financial Statements. The 2016 Credit Agreement also includes customary events of default, the occurrence of which could result in the acceleration of the obligations under the 2016 Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the 2016 Credit Agreement at a per annum rate equal to 2.0% above the applicable interest rate for any overdue principal and 2.0% above the rate applicable for base rate loans for any other overdue amounts.

At December 31, 2017, the interest rates on the 2016 Term Loans were 6.8% and 11.5% for the 1st Lien Term Loan and the 2nd Lien Term Loan, respectively and the accrued interest on the 2016 Term Loans was \$1.6 million.

Current Portion of Long-Term Debt (in thousands):

	Year Ended December 31,	
	2017	2016
Current portion of long-term debt	\$ 23,438	\$ 18,750
Less: Unamortized issuance costs associated with current portion of long-term debt	(11,702)	(11,920)
Total current portion of long-term debt	\$ 11,736	\$ 6,830

Long -Term Debt (in thousands):

	Maturities	Year Ended December 31,	
		2017	2016
1st Lien Term Loan of \$750 million	2023	590,563	725,313
2nd Lien Term Loan of \$175 million	2024	175,000	175,000
Total gross long-term debt		\$ 765,563	\$ 900,313
Less Unamortized discount and issuance costs attributable to long-term debt		(58,973)	(64,661)
Less Current portion of long-term debt, net		(11,736)	(6,830)
Total long-term debt		\$ 694,854	\$ 828,822

The following table summarizes interest expense recognized related to the 2013 and 2016 Term Loans for the periods presented (in thousands):

	Year Ended December 31,	
	2017	2016
Contractual interest expense	\$ 64,197	\$ 24,259
Amortization of debt issuance costs	13,963	3,296
Total	\$ 78,160	\$ 27,555

As of December 31, 2017, future principal payments for long-term debt, including the current portion, are summarized as follows (in thousands):

Year Ending December 31,	Amount
2018	\$ 23,438
2019	37,500
2020	42,188
2021	56,250
2022	56,250
Thereafter	549,937
Total	\$ 765,563

The Company made optional prepayments on the 1st Lien Term Loan of \$116.0 million in the year ended December 31, 2017.

Subsequent to December 31, 2017, the Company made optional prepayments on the 1st Lien Term Loan of \$25.0 million.

8. Fair Value Measurements

In February 2017, the Company entered into long-term cross-current swap contracts which are measured at fair value based on quoted market prices, and where these are not available, on prices from external pricing services, solicited broker/dealer prices, or prices derived from alternative pricing models, utilizing discounted cash flows. Pricing models generally use inputs from market sources such as interest rate yield curves, currency exchange rates and option volatilities. These inputs have a significant effect on the reported fair values of assets and liabilities and related income and expenses.

At December 31, 2017, the estimated fair value of the cross-currency swap transactions totaled \$55.9 million and these are classified within Level 2 instruments. See Note 11 - Foreign Currency Derivatives for further details.

In addition, the Company has facilities-related liabilities related to restructuring which were calculated based on the discounted future lease payments less sublease assumptions. This non-recurring fair value measurement is classified as a Level 3 measurement under ASC 820. See Note 6 - Restructuring Costs for further details.

The Company's 2016 Term Loans under its 2016 Credit Agreements are classified within Level 2 instruments as the borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities. The Company has elected not to record its 2016 Term Loans at fair value, but has measured it at fair value for disclosure purposes. At December 31, 2017 and 2016, the estimated fair value of the 2016 Term Loans, using observable market inputs, was approximately \$770.0 million and \$903.9 million, respectively.

9. Business Risks and Credit Concentration

The Company sells products and services which serve the communications equipment market globally. Substantially all of the Company's revenues are derived from sales of its products and their related services. A substantial majority of the Company's revenue is from value-added resellers, distributors and service providers. At December 31, 2017, one channel partner, Company A, accounted for 25% of the Company's total revenues. At December 31, 2016, two channel partners, Company A and Company B, accounted for 22% and 11%, respectively, of the Company's total revenues.

The Company subcontracts the manufacture of most of its products to a small group of vendors which are all third-party contract manufacturers. These vendor's facilities are located in Thailand, Laos and China and should there be any disruption in services due to natural disaster, terrorist acts, quarantines or other disruptions associated with infectious diseases, or economic or political difficulties in any of these countries or in Asia or for any other reason, such disruption would harm its business and results of operations. While the Company has begun to develop secondary manufacturing sources for certain products, currently the manufacture and supply of a substantial portion of its products is essentially sole-sourced. Furthermore, any incapacitation of any of the Company's or its subcontractors' manufacturing sites, due to destruction, natural disaster or similar events could result in a loss of product inventory. As a result of any of the foregoing, the Company may not be able to meet demand for its products, which could negatively affect revenues in the quarter of the disruption or longer depending upon the magnitude of the event, and could harm its reputation.

The Company markets its products to distributors and end-users throughout the world. Management performs ongoing credit evaluations of the Company's customers and maintains an allowance for potential credit losses. The Company's credit risk may increase with the expansion of Polycom's product offerings as customers place larger orders for initial stocking orders and its growth in emerging markets. There can be no assurance that the Company's credit loss experience will remain at or near historical levels. At December 31, 2017 no single distributor or customer accounted for 10% or higher of total gross accounts receivable. At December 31, 2016, Company C accounted for 11% of total gross accounts receivable.

The United States accounted for more than 10% of the Company's revenues in 2017 and 2016. Net revenues in the United States were \$507.4 million and \$469.4 million for the years ended December 31, 2017 and 2016, respectively.

10. Commitments and Contingencies

Litigation

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

On September 27, 2016, as a result of the acquisition of the Company by Siris Capital, one shareholder demanded judicial appraisal of the fair value of its shares in the Company claiming they were worth more than the price attributable to them as a result of the acquisition. The Company disagrees and is vigorously defending the matter and is currently preparing for trial which is set to begin on July 9, 2018. As of December 31, 2017, the Company has accrued \$12.8 million in "Other accrued liabilities" in the Consolidated Balance Sheet for the unpaid shares (at the Merger purchase price of \$12.50 per share) and related interest.

As a result of certain employee allegations at one of its foreign subsidiaries about a possible violation of the Foreign Corrupt Practices Act that occurred in prior reporting periods, the Company has undertaken an internal investigation and voluntarily self-disclosed this matter to the United States Department of Justice (the "DOJ") and the United States Securities and Exchange Commission (the "SEC"). The Company is currently in discussions with the DOJ and the SEC and is seeking a declination and/or non-prosecution agreement to resolve this matter. At this time, no provision with respect to this matter has been made in the Company's consolidated financial statements.

Officer and Director Indemnifications

As permitted or required under Delaware law and to the maximum extent allowable under that law, the Company has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has a director and officer insurance policy that mitigates the Company's exposure and enables the Company to recover a portion of any future amounts paid.

Other Indemnifications

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

Standby Letters of Credit

The Company has standby letters of credit totaling approximately \$2.0 million and \$1.3 million at December 31, 2017 and 2016, respectively.

Leases

The Company leases certain office facilities and equipment under noncancelable operating leases expiring between 2018 and 2023. As of December 31, 2017, the following future minimum lease payments are due under the current lease obligations (in thousands). In addition to these minimum lease payments, the Company is contractually obligated under the majority of its operating leases to pay certain operating expenses during the term of the lease such as maintenance, taxes and insurance.

Year Ending December 31,	Net Minimum Lease Payments
2018	20,311
2019	15,020
2020	12,031
2021	9,401
2022	4,675
Thereafter	971
Total	\$ 62,409

The table excludes approximately \$5.8 million and \$5.0 million related to the current portion of minimum lease payments associated with leased space that was restructured and sublease receipts from such restructured space, respectively. The non-current portion of future minimum lease payments associated with leased space that was restructured and sublease receipts from such restructured space was \$18.9 million and \$18.8 million, respectively. The present value of lease payments less sublease income relating to restructured facilities was included in Other accrued liabilities and Other non-current liabilities in Consolidated Balance Sheets of the Company.

In addition to minimum lease payments, the Company is contractually obligated under the majority of its operating leases to pay certain operating expenses during the term of the lease such as maintenance, taxes and insurance. Rent expense, including the effect of any future rent escalations or rent holiday periods, is recognized on a straight-line basis over the term of the lease, which is deemed to commence upon the Company gaining access and control of the facility. Rent expense for the years ended December 31, 2017 and 2016 was \$20.5 million and \$22.3 million, respectively.

11. Foreign Currency Derivatives

Prior to the Merger, the Company maintained a foreign currency risk management program that was designed to reduce the volatility of the Company's economic value from the effects of unanticipated currency fluctuations. International operations generate both revenues and costs denominated in foreign currencies. The Company's policy was to hedge significant foreign currency revenues and costs to improve margin visibility and reduce earnings volatility associated with unexpected changes in currency. The Company also hedged its net foreign currency monetary assets and liabilities, primarily resulting from foreign currency denominated receivables and payables with foreign exchange forward contracts to reduce the risk that the Company's earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. In September 2016, simultaneously with the Merger, the Company closed out all of its then outstanding hedge contracts. As of December 31, 2016, the Company had no outstanding cash flow hedges or non-designated hedges.

Non-Designated Hedges

In February 2017, the Company entered into long-term cross-currency swap transactions intended to protect the value of the investment made by the Parent from fluctuations in the Euro over the duration of the investment. The swap transactions did not qualify for hedge accounting and are treated as economic hedges. The cross-currency swap transactions are marked-to-market at the end of each reporting period, with the gain/loss recognized in Interest and other income (expense), in the Consolidated statements operation.

Prior to the Merger, the Company executed non-designated foreign exchange forward contracts primarily denominated in Euros, British Pounds, Israeli Shekels, Japanese Yen, Brazilian Reals, Chinese Yuan, and Mexican Pesos. These derivative instruments did not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives were intended to offset re-measurement gains and losses on the hedged assets and liabilities.

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

Derivatives Not Designated As Hedging Instruments	Location of Gain/(Loss) Recognized in Income from Derivatives	Amount of Gain/(Loss) Recognized in Income from Derivatives
Year Ended December 31, 2017		
Foreign Exchange Contracts	Interest and other income (expense), net	\$ (54,559)
Year Ended December 31, 2016		
Foreign Exchange Contracts	Interest and other income (expense), net	\$ (1,038)

At December 31, 2017, the Company's derivative instruments in the form of long-term cross currency swap contracts were measured at their gross fair value and recorded in Other non-current liabilities in the Consolidated Balance Sheets. The fair value of derivative instruments was \$55.9 million.

Cash Flow Hedges

The Company designated forward contracts as cash flow hedges of foreign currency revenues and expenses, primarily the Chinese Yuan, Euros and British Pounds. All foreign exchange contracts were carried at fair value on the Consolidated Balance Sheets and the maximum duration of foreign exchange forward contracts did not exceed 13 months. In September 2016, simultaneously with the Merger, all outstanding cash flow hedges were cancelled and the then effective gains and losses, which had been triggered and recorded as a component of "Accumulated other comprehensive (loss) income" were reclassified to revenues and operating expenses, depending upon the underlying exposure hedged, through the first quarter of fiscal 2017 when the underlying forecasted foreign currency transactions affected earnings.

The following tables show the effect of the Company's derivative instruments designated as cash flow hedges in the consolidated statements of operations for the following periods (in thousands):

Gain or (Loss) Recognized in OCI-Effective Portion	Location of Gain or (Loss) Reclassified from OCI into Income-Effective Portion	Gain or (Loss) Reclassified from OCI into Income - Effective Portion	Location of Gain or (Loss) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing	Gain or (Loss) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing ^(a)
Year Ended December 31, 2017				
Foreign exchange contracts	\$ —	Product revenues	Interest and other income (expense), net	\$ —
		Cost of revenues		
		Sales and marketing		
		Research and development		
		General and administrative		
	<u>\$ —</u>			<u>\$ —</u>
Year Ended December 31, 2016				
Foreign exchange contracts	\$ (1,810)	Product revenues	Interest and other income (expense), net	\$ 1,216
		Cost of revenues		
		Sales and marketing		
		Research and development		
		General and administrative		
	<u>\$ (1,810)</u>			<u>\$ 1,216</u>

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

All values remaining in accumulated other comprehensive loss have been reclassified to income in the year ended December 31, 2017.

There were no ineffective portions of gains or losses from cash flow hedges in the years ended December 31, 2017 and 2016.

See Note 8 for additional information on the fair value measurements for all financial assets and liabilities, including derivative liabilities that are measured at fair value in the Consolidated Financial Statements on a recurring basis.

Offsetting Derivative Assets and Liabilities

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

At December 31, 2017, the Company had long-term debt and interest payable outstanding with one of its derivative counterparties under the long-term cross currency swap contracts. The contracts were in a loss position, resulting in a long-term derivative liability as of that date. If the contracts change to a gain position in future periods, the resulting long-term derivative asset could be offset against long-term debt and interest liabilities under certain default provisions.

The following table sets forth the derivatives which can be offset (in thousands):

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
As of December 31, 2017:						
Foreign exchange contracts	\$ 18,658	\$ —	\$ 18,658	\$ (18,658)	\$ —	\$ —

12. Stockholders' Equity

Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, net of tax, by component (in thousands). The tax effects were not shown separately, as the impacts were not material.

	Unrealized Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for- Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2015	\$ (59)	\$ (197)	\$ (947)	\$ (1,203)
Other comprehensive income (loss) before reclassifications	(1,810)	254	(4,261)	(5,818)
Amounts reclassified from accumulated other comprehensive income (a)	1,430	(57)	—	1,373
Net current-period other comprehensive income (loss)	(380)	197	(4,261)	(4,444)
Balance as of December 31, 2016	\$ (439)	\$ —	\$ (5,208)	\$ (5,647)
Other comprehensive income (loss) before reclassifications	—	—	3,336	3,336
Amounts reclassified from accumulated other comprehensive income (a)	439	—	—	439
Net current-period other comprehensive income (loss)	439	—	3,336	3,775
Balance as of December 31, 2017	\$ —	\$ —	\$ (1,872)	\$ (1,872)

- (a) See Note 11 for details of gains and losses, net of taxes, reclassified out of accumulated other comprehensive loss into net income related to cash flow hedges and each line item of net income affected by the reclassification. Gains and losses related to available-for-sale securities were reclassified into "Interest and other income (expense), net" in the Consolidated Statements of Operations, net of taxes.

13. Stock-Based Employee Benefit Plans

Prior to the Merger, Polycom's equity incentive plans provided for, among other award types, stock options, restricted stock units, and performance shares to be granted to employees and non-employee directors under the Company's amended and restated 2011 Equity Incentive Plan, as well as purchase rights pursuant to the Company's Employee Stock Purchase Plan ("ESPP"). Stock-based compensation expense based on

the estimated fair value of these awards was charged to operations over the requisite service period, which is generally the vesting period, including the effect of forfeitures. Effective on the Closing date of the Merger, all vested and unvested stock options that were outstanding immediately prior, were cancelled and paid out at the difference between \$12.50 per stock option and the stock option strike price. All unvested restricted stock units and performance shares that were outstanding immediately prior to the Closing date were cancelled and paid out at \$12.50 per unit/award. The Company does not have a Stock-Based Employee Benefit Plan after the Merger.

The fair value of stock options and ESPP awards was estimated at the grant date using the Black-Scholes option valuation model. The fair value of restricted stock units was based on the market value of the Company's common stock on the date of grant. The fair value of a performance share with a market condition was estimated on the date of award, using a Monte Carlo simulation model to estimate the total return ranking of the Company's stock in relation to the target index of peer companies over each performance period. Stock-based compensation cost on performance shares with a market condition was not adjusted for subsequent changes regardless of the level of ultimate vesting.

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

	Year Ended December 31, 2016
Cost of product revenues	\$ 5,357
Cost of service revenues	9,467
Stock-based compensation expense included in cost of revenues	<u>14,824</u>
Sales and marketing	31,103
Research and development	17,691
General and administrative	<u>31,275</u>
Stock-based compensation expense included in operating expenses	80,069
Stock-based compensation expense related to employee equity awards and employee stock purchases	94,893
Tax benefit	<u>(18,253)</u>
Stock-based compensation expense related to employee equity awards and employee stock purchases, net of tax	<u>\$ 76,640</u>

The amounts above include equity based compensation expense of \$48.2 million accelerated as a result of the cancellation and payment of vested and unvested options and awards in accordance with the Merger.

Stock Options

There were no stock options granted in 2016. All compensation cost related to stock options was fully recognized prior to the 2015 fiscal year.

Performance Shares and Restricted Stock Units

Prior to the Merger, the Company granted performance shares to certain employees and executives, which contained a market condition based on Total Shareholder Return ("TSR") and which measured the Company's relative performance against the NASDAQ Composite Index. Such performance shares were delivered in common stock at the end of the vesting period based on the Company's actual performance compared to the target performance criteria and could equal from zero percent (0%) to one hundred fifty percent (150%) of the target award. The fair value of a performance share with a market condition was estimated on the date of award using a Monte Carlo simulation model to estimate the total return ranking of the Company's stock among the NASDAQ Composite Index companies over each performance period.

The Company also granted RSUs to employees and non-employee directors. The fair value of RSUs was based on the closing market price of the Company's common stock on the date of award. The awards were delivered in common stock at the end of each vesting period. Stock-based compensation expense for the RSUs granted to employees was recognized using the graded vesting method. The awards granted to non-employee directors vested quarterly over approximately one year from the date of grant and stock-based compensation expense for these awards was amortized over six months from the date of grant due to voluntary termination provisions contained in the underlying agreements.

The total fair value of shares vested in 2016 was \$37.1 million.

Employee Stock Purchase Plan

During 2016, 1,236,759 shares were purchased under the Company's employee stock purchase plan ("ESPP").

Effective as of one day prior to the closing of the Merger, the ESPP was terminated. The Company recognized approximately \$10.9 million of unamortized stock-based compensation expense in relation to the cancelled offering periods in 2016.

Valuation Assumptions

The estimated fair value per share of employee stock purchase rights granted pursuant to ESPP in 2016 ranged from \$2.51 to \$3.35, and was estimated on the date of grant using the Black-Scholes option valuation model and is recognized as expense using the graded vesting method using the following assumptions:

	2016
Expected volatility	31.85 - 34.97%
Risk-free interest rate	0.47 - 0.81%
Expected dividends	0.0%
Expected life (years)	0.5 - 2.0

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

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

The dividend yield assumption was based on the Company's history of not paying dividends and no future expectation of dividend payouts.

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

14. Employee Benefit Plans

Defined Contribution Plan

The Company has a defined contribution benefit plan under Section 401(k) of the Internal Revenue Code (the "Polycom 401(k) Plan"), which covers substantially all U.S. employees. Eligible employees may elect to contribute pre-tax amounts to the Polycom 401(k) Plan, through payroll deductions, subject to certain limitations. The Company matches in cash 50% of the first 6% of compensation employees contribute to the Polycom 401(k) Plan, up to a certain maximum per participating employee per year. All matching contributions are 100% vested after one year of employment.

The Company's contributions to the Polycom 401(k) Plan totaled approximately \$2.2 million and \$2.5 million in 2017 and 2016, respectively.

Long Term Incentive Plan

In September 2016, simultaneously with the Merger, the Company and its' Board of Directors approved the Polycom, Inc. 2016 Long Term Incentive Plan ("2016 LTIP"). Under the 2016 LTIP, certain officers and key employees were granted incentive awards ("IRs"). The fair value of the awards is based on the valuation of Polycom, Inc. The maximum number of IRs that may be granted under the 2016 LTIP is 59,343,479 awards, of which 43,325,000 and 33,750,000 were granted and outstanding as at December 31, 2017 and 2016, respectively. The grant date fair value of the outstanding awards was \$10.6 million as of December 31, 2017. All awards granted during 2016 contain performance-based vesting criteria that can only be achieved through certain events as defined in the 2016 LTIP, such as the sale of the company ("Liquidity Event"). Because of the performance criteria, compensation expense will only be recognized once the performance targets are considered probable of achievement through consummation of a Liquidity Event. As a result, no compensation expense was recorded during the years ended December 31, 2017 and 2016. Compensation expense, related to the periods for which the requisite service has already been rendered and the applicable performance-based criteria has been achieved, will be recognized in the period in which it becomes probable the performance targets defined within the IR agreements will be achieved. The IR agreements would be classified as a liability upon the consummation of a sale of the company, which would require the Company to determine the fair value of the awards as of the date of sale for the purposes of recognizing share based compensation. The sale date fair value may be different than the grant date fair value. Upon the consummation of an IPO, total stock compensation would be determined based on the grant date fair value for existing employees and based on the fair value of vested IRs as of the date of the IPO for former employees subject to the forfeiture terms per the 2016 LTIP.

15. Income Taxes

On December 22, 2017, the United States enacted major tax reform legislation, Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (2017 Tax Act). The 2017 Tax Act imposes a repatriation tax on accumulated earnings of foreign subsidiaries, implements a territorial tax system together with a current tax on certain foreign earnings and lowers the general corporate income tax rate to 21%. On December 22, 2017, the SEC staff issued SAB 118 that allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company is currently analyzing the 2017 Tax Act, and in certain areas, has made reasonable estimates of the effects on the consolidated financial statements and tax disclosures, including the amount of the repatriation tax and changes to existing deferred tax balances.

The repatriation tax is based primarily on accumulated foreign earnings and profits that were previously deferred from U.S. income taxes. The Company recorded an estimated amount for the repatriation tax liability net of foreign tax credits of \$45.4 million as of December 31, 2017. In addition, the Company remeasured certain net deferred tax assets based on the tax rates at which they are expected to reverse in the future. The estimated amount recorded related to the remeasurement of these balances was a net expense of \$27.2 million. The combined estimated impact of

the 2017 Tax Act is \$72.6 million in additional tax expense, which the Company estimates that after the application of allowable Foreign Tax Credits and available R&D credits, results in no additional taxes payable.

The 2017 Tax Act includes provisions for Global Intangible Low-Taxed Income ("GILTI"), under which taxes on foreign income are imposed in excess of a deemed return on tangible assets of foreign corporations. In general, this income will effectively be taxed at a 10.5% tax rate. As a result, the company's deferred tax assets and liabilities are being evaluated to determine if the deferred tax assets and liabilities should be recognized for the basis differences expected to reverse as a result of GILTI provisions that are effective for the company after the year ending December 31, 2017. Because of the complexity of the new GILTI tax rules, the company is continuing to evaluate this provision of the Act and the application of the relevant U.S. GAAP provisions. Under U.S. GAAP, the company is allowed to make an accounting policy election of either (i) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"), or (ii) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). Currently, the company has not elected a method and will only do so after its completion of the analysis of the GILTI provisions. Its election method will depend, in part, on analyzing its global income to determine whether the company expects to have future U.S. inclusions in its taxable income related to GILTI and, if so, the impact that is expected.

The Company considers the key estimates on the repatriation tax, net deferred tax remeasurement and the impact on unrealized tax benefits to be incomplete due to the continuing analysis of final year-end data and tax positions. The final analysis could affect the measurement of these balances and give rise to new deferred and other tax assets and liabilities. Since the 2017 Tax Act was passed late in the fourth quarter of 2017, and further guidance and accounting interpretation is expected over the next 12 months, the Company's analysis is still in process. The analysis is expected to be complete within the measurement period.

Income tax expense (benefit) consists of the following (in thousands):

	Year Ended December 31,	
	2017	2016
Income tax expense		
Current	\$ 16,732	\$ 31,750
Deferred	26,647	125
Total income tax expense (benefit)	<u>\$ 43,379</u>	<u>\$ 31,875</u>

The effective tax rate for the year ended December 31, 2017, differs from the Federal statutory rate of 35% due primarily to impacts of the 2017 Tax Act, including the repatriation tax on accumulated foreign earnings, the remeasurement of certain net deferred tax assets, the tax impact of foreign profits in lower tax jurisdictions, state taxes, R&D tax credits, changes in reserves for uncertain tax positions, non-deductible acquisition/transaction costs, intercompany sales of intellectual property, and the book amortization of goodwill. The effective tax rates for the year ended December 31, 2016 differ from the U.S. Federal statutory rate of 35%, primarily due to the tax impact of foreign profits in lower tax jurisdictions, state taxes, R&D tax credits, domestic manufacturing deductions, non-deductible stock based compensation, changes in reserves for uncertain tax positions, non-deductible acquisition/transaction costs and intercompany sales of intellectual property.

Deferred tax assets (liabilities) are presented below (in thousands):

	Year Ended December 31,	
	2017	2016
Deferred tax asset	\$ 77,151	\$ 113,160
Deferred tax liability	(1,153)	(9,760)
Net deferred tax asset before valuation allowance	\$ 75,998	\$ 103,400
Valuation allowance	(11,141)	(13,794)
Deferred tax asset, net of valuation allowance	<u>\$ 64,857</u>	<u>\$ 89,606</u>

Included in the deferred tax asset balance at December 31, 2017, were approximately \$15.9 million in tax effected net operating loss carryforwards, \$0.3 million in tax effected capital loss carryforwards and \$8.1 million in tax effected credit carryforwards. The net operating loss carryforwards and credits include \$0.5 million and \$0.1 million, respectively, related to acquisitions and, as a result, are limited in the amount that can be recognized in any one year. The capital and net operating loss carryforward assets begin to expire in 2026 and tax credit carryforwards begin to expire in 2027. Other types of significant temporary differences giving rise to deferred taxes were non-deductible reserves, deferred revenue, acquired intangible assets and tax basis differences in fixed assets.

Included in the net deferred tax asset balance at December 31, 2017 is a \$11.1 million valuation allowance, \$2.2 million of which relates to research credits in a jurisdiction with a history of credits in excess of taxable profits, and \$8.9 million of which includes net operating losses of \$6.1 million and other deferred tax assets of \$2.8 million for a foreign subsidiary that has a history of losses. The change in the valuation allowance as compared to December 31, 2016 of \$2.7 million is primarily attributable to the use of net operating losses and research credits in 2017.

As of December 31, 2016, the Company accrued taxes on earnings from its wholly-owned foreign subsidiaries and recorded a \$50.7 million tax expense (primarily related to \$229.8 million of dividend income recognizable in the U.S. with an associated \$29.8 million U.S. tax credit for foreign income taxes that have been paid on such earnings). As of December 31, 2017, the Company recorded \$45.4 million net of foreign tax credits for the

repatriation tax on accumulated earnings of foreign subsidiaries. In the future, any excess cash beyond the working capital requirements generated by the foreign subsidiaries will be subject to repatriation and the full rate of US tax will be accrued. The Company will assess the amount during the measurement period during which it obtains necessary information and is able to analyze and prepare a reasonable estimate.

Excess tax benefits associated with stock option exercises are credited to stockholders' equity. The reduction of income taxes payable resulting from the exercise of employee stock options and other employee stock programs that was credited to stockholders' equity was approximately \$5.1 million for the year ended December 31, 2016. There is no impact in 2017 since Polycom is a private company and there is no employee stock option or other employee stock programs.

In 2017 and 2016, the Company recorded reserve reductions of \$1.1 million and \$1.3 million, respectively. The reserve reversals in 2016 were due to the expiration of statutes of limitation in both the U.S and foreign jurisdictions. In 2017, \$0.4 million in reserve reductions were related to a tax settlement in a foreign jurisdiction and \$0.7 million in reserve reductions were due to expirations of statutes of limitation in the U.S. and foreign jurisdictions. There is no significant reserve that is reasonably possible to reverse in the next 12 months.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2017, and December 31, 2016, the Company had approximately \$1.2 million and \$1.6 million, respectively, of accrued interest and penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2014. Foreign income tax matters for most foreign jurisdictions have been concluded for years through 2011, except India which is concluded through March 2008, and the United Kingdom which is concluded through 2015. Israel and Singapore have been concluded for 2013.

16. Subsequent Event

On January 29, 2018, the Company acquired all of the issued and outstanding capital stock of Obihai Technology, Inc. (Obihai), a San Jose-based development company of software and hardware for VoIP audio solutions for approximately \$22.5 million.

The Company has evaluated subsequent events through March 26, 2018, the date at which the Consolidated Financial Statements were available to be issued, and except for the Obihai acquisition determined that there are no other items to disclose.

Section 5: EX-99.3 (EXHIBIT 99.3)



Polycom, Inc.
Consolidated Financial Statements
December 31, 2015
(With Independent Auditors' Report Thereon)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Polycom, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of Polycom, Inc. and its subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California

February 29, 2016

POLYCOM, INC.
CONSOLIDATED BALANCE SHEET
(in thousands, except share and per share data)

	December 31, 2015
ASSETS	
Current assets	
Cash and cash equivalents	\$ 435,093
Short-term investments	184,242
Trade receivables, net	187,888
Inventories	89,392
Prepaid expenses and other current assets	52,852
Total current assets	949,467
Property and equipment, net	101,853
Long-term investments	46,484
Goodwill	558,775
Purchased intangibles, net	14,065
Deferred taxes	89,865
Other assets	21,738
Total assets	\$ 1,782,247
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts payable	\$ 73,472
Accrued payroll and related liabilities	38,781
Taxes payable	4,342
Deferred revenue	170,559
Current portion of long-term debt	5,717
Other accrued liabilities	85,095
Total current liabilities	377,966
Long-term deferred revenue	86,191
Taxes payable	9,983
Deferred taxes	135
Long-term debt	228,799
Other non-current liabilities	25,964
Total liabilities	729,038
Commitments and contingencies (Note 12)	
Stockholders' equity	
Common stock, \$0.0005 par value; authorized: 350,000,000 shares; issued and outstanding: 132,665,165 shares	66
Additional paid-in capital	1,167,701
Accumulated deficit	(113,355)
Accumulated other comprehensive (loss) income	(1,203)
Total stockholders' equity	1,053,209
Total liabilities and stockholders' equity	\$ 1,782,247

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31, 2015
Revenues:	
Product revenues	\$ 893,762
Service revenues	373,463
Total revenues	1,267,225
Cost of revenues:	
Cost of product revenues	390,618
Cost of service revenues	137,854
Total cost of revenues	528,472
Gross profit	738,753
Operating expenses:	
Sales and marketing	349,732
Research and development	191,456
General and administrative	88,626
Amortization of purchased intangibles	9,495
Restructuring costs	11,096
Transaction-related costs	574
Total operating expenses	650,979
Operating income	87,774
Interest and other income (expense), net	
Interest expense	(6,131)
Other income (expense), net	4,276
Interest and other income (expense), net	(1,855)
Income before provision for income taxes	85,919
Provision for income taxes	15,944
Net income	\$ 69,975
Basic net income per share:	
Net income per share	\$ 0.52
Diluted net income per share:	
Net income per share	\$ 0.51
Number of shares used in computation of net income per share:	
Basic	133,581
Diluted	137,394

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year Ended December 31, 2015
Net income	\$ 69,975
Other comprehensive income (loss), net of tax:	
Foreign currency translation adjustments	(3,744)
Unrealized gains/losses on investments:	
Unrealized holding gains (losses) arising during the period	(159)
Net gains (losses) reclassified into earnings	14
Net unrealized gains (losses) on investments	(145)
Unrealized gains/losses on hedging securities:	
Unrealized hedge gains arising during the period	4,954
Net (gains) losses reclassified into earnings for revenue hedges	(14,028)
Net (gains) losses reclassified into earnings for expense hedges	7,649
Net unrealized gains (losses) on hedging securities	(1,425)
Other comprehensive income (loss)	(5,314)
Comprehensive income (loss)	\$ 64,661

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
	Shares	Amount				
Balances, December 31, 2014	135,204,948	\$ 68	\$ 1,155,829	\$ 4,111	\$ (136,275)	\$ 1,023,733
Net income	—	—	—	—	69,975	69,975
Other comprehensive loss	—	—	—	(5,314)	—	(5,314)
Issuance of vested performance shares and restricted stock units	3,452,569	1	(1)	—	—	—
Exercise of stock options under stock option plan	53,219	—	620	—	—	620
Shares purchased under employee stock purchase plan	2,150,586	1	21,258	—	—	21,259
Purchase and retirement of common stock at cost	(8,196,157)	(4)	(58,229)	—	(47,055)	(105,288)
Stock-based compensation	—	—	45,572	—	—	45,572
Tax expense for stock-based award activity	—	—	2,652	—	—	2,652
Balances, December 31, 2015	<u>132,665,165</u>	<u>\$ 66</u>	<u>\$ 1,167,701</u>	<u>\$ (1,203)</u>	<u>\$ (113,355)</u>	<u>\$ 1,053,209</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2015
Cash flows from operating activities:	
Net income	\$ 69,975
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	51,682
Amortization of purchased intangibles	10,502
Amortization of capitalized software development costs for products to be sold	3,102
Amortization of debt issuance costs	532
Amortization of discounts and premiums on investments, net	2,095
Write-down of excess and obsolete inventories	12,112
Stock-based compensation expense	45,139
Excess tax benefits from stock-based compensation expense	(4,431)
Loss on disposal of property and equipment	1,252
Changes in assets and liabilities, net of effects of acquisitions:	
Trade receivables	(19,022)
Inventories	(1,677)
Deferred taxes	(6,193)
Prepaid expenses and other assets	8,947
Accounts payable	(31,470)
Taxes payable	10,465
Other accrued liabilities and deferred revenue	(33,461)
Net cash provided by operating activities	119,549
Cash flows from investing activities:	
Purchases of property and equipment	(47,562)
Capitalized software development costs for products to be sold	(5,144)
Purchases of investments	(247,303)
Proceeds from sales of investments	18,589
Proceeds from maturities of investments	240,684
Net cash used in investing activities	(40,736)
Cash flows from financing activities:	
Proceeds from issuance of common stock under employee option and stock purchase plans	21,879
Payments on debt	(6,250)
Purchase and retirement of common stock under share purchase plan	(89,953)
Purchase and retirement of common stock for tax withholdings on vesting of employee stock-based awards	(15,335)
Excess tax benefits from stock-based compensation expense	4,431
Net cash used in financing activities	(85,228)
Effect of exchange rate changes on cash and cash equivalents	(1,624)
Net decrease in cash and cash equivalents	(8,039)
Cash and cash equivalents, beginning of year	443,132
Cash and cash equivalents, end of year	\$ 435,093
Supplemental Disclosures of Cash Flow Information:	
Cash paid for interest	\$ 5,498
Cash paid for income taxes	\$ 7,353

The accompanying notes are an integral part of these Consolidated Financial Statements.

POLYCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Description of Business

Polycom, Inc. (“Polycom” or “the Company”) is a leading global provider of high-quality, easy-to-use collaboration solutions that enable enterprise, government, education and healthcare customers to more effectively collaborate over distance, time zones and organizational boundaries. The Company’s solutions are built on architectures that enable unified video, voice and content communications.

Polycom was incorporated in the state of Delaware in December 1990 and traded on the NASDAQ Global Select Market under the ticker symbol “PLCM”.

Principles of Accounting and Consolidation

These Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company’s Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Investments

Investments are classified as short-term or long-term based on their remaining maturities. The Company’s short-term and long-term investments as of December 31, 2015 are comprised of U.S. and non-U.S. government securities, U.S. government agency securities and corporate debt securities. All investments are held in the Company’s name at a limited number of major financial institutions. At December 31, 2015, all of the Company’s investments were classified as available-for-sale and unrealized gains and losses on investments are recorded as a separate component of “Accumulated other comprehensive (loss) income” in the Consolidated Statement of Stockholders’ Equity. The Company reviews the individual securities in its portfolio to determine whether a decline in a security’s fair value below the amortized cost basis is other-than-temporary. If the decline in fair value is considered to be other-than-temporary, the cost basis of the individual security is written down to its fair value as a new cost basis. If the investments are sold at a loss or are considered to have other-than-temporarily declined in value, the amount of the loss or write-down is accounted for as a realized loss and included in earnings. The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in “Interest and other income (expense), net” in the Consolidated Statement of Operations.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company regularly performs credit evaluations of its customers' financial condition and considers factors such as historical experience, credit quality, age of the accounts receivable balances, and geographic or country-specific risks and economic conditions that may affect a customer's ability to pay. The allowance for doubtful accounts is reviewed quarterly and adjusted if necessary based on the Company's assessment of its customer’s ability to pay.

Inventories

Inventories are valued at the lower of cost or market with cost computed on a first-in, first-out (FIFO) basis. Consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. The Company records write-downs for excess and obsolete inventory equal to the difference between the carrying value of inventory and the estimated future selling price based upon assumptions about future product life-cycles, product demand and market conditions. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally from one to seven years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the related assets, typically three to thirteen years. Disposals of capital equipment are recorded by removing the costs and accumulated depreciation from the accounts and gains or losses on disposals are included in "Interest and other income (expense), net" in the Consolidated Statement of Operations.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. Goodwill is not amortized but is regularly reviewed for potential impairment. The Company reviews goodwill for impairment annually during the fourth quarter of each calendar year, or whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. The Company performs an initial qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If, after the initial qualitative assessment, the Company determines that it is more likely than not that the fair value of the reporting unit exceeds its carrying value and there is no indication of impairment, no further testing is performed; however, if the Company concludes otherwise, then the Company is required to perform a two-step impairment test to assess if a potential impairment has occurred and measure an impairment loss, if any. For further discussion of goodwill and its impairment review, see Note 5.

Long-Lived Assets

Purchased intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from several months to six years. Purchased intangible assets determined to have indefinite useful lives are not amortized. Long-lived assets, including purchased intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset or group of assets and their eventual disposition. The Company periodically assesses the remaining useful lives of long-lived assets. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell.

Warranty

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

Deferred Services Revenue

The Company offers maintenance contracts for sale on most of its products which allow for customers to receive maintenance support in addition to the contractual product warranty. The Company also provides managed services to its customers under contractual arrangements. The Company recognizes the maintenance and managed services revenues from these contracts over the life of the service contract.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, title and risk of loss have transferred, product payment is not contingent upon performance of installation or service obligations, the price is fixed or determinable, and collectability is reasonably assured. Additionally, the Company recognizes maintenance service revenues on its hardware and software products ratably over the service periods of one to five years, and other services upon the completion of implementation or professional services provided.

Most of the Company's products are integrated with software that is essential to the functionality of the equipment. Additionally, the Company provides unspecified software upgrades and enhancements related to most of these products through maintenance contracts.

A multiple-element arrangement includes the sale of one or more tangible product offerings with one or more associated services offerings, each of which are individually considered separate units of accounting. The Company allocates revenue to each element in a multiple-element arrangement based upon the relative selling price of each deliverable. When applying the relative selling price method, the Company determines the selling price for each deliverable using vendor specific objective evidence ("VSOE") of selling price, if it exists, or third party evidence ("TPE") of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, the Company uses its best estimate of selling price ("ESP") for that deliverable. Revenue allocated to each element is then recognized when the other revenue recognition criteria are met for each element.

VSOE is established based on the Company's standard pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range.

When VSOE cannot be established, the Company attempts to establish the selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately.

When the Company is unable to establish the selling price using VSOE or TPE, the Company uses ESP in its allocation of revenue for the arrangement. ESP represents the price at which the Company would transact a sale if the element were sold on a stand-alone basis. The Company determines ESP for a product by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, and pricing practices. The determination of ESP is made based on review of historical sales price, taking into consideration the Company's go-to-market strategy. Generally, the Company uses historical net selling prices to establish ESP. The Company regularly reviews its basis for establishing VSOE, TPE and ESP.

Sales Returns, Channel Partner Programs and Incentives

The Company's contracts generally do not provide for a right of return on any of its products. However, some of the contracts with our distributors contain stock rotation rights. The Company records an estimate of future returns based upon these contractual rights and its historical returns experience. The Company records estimated reductions to revenues for channel partner programs and incentive offerings including special pricing agreements, promotions and other volume-based incentives. The Company also accrues for joint marketing funds as a marketing expense if the Company receives a separable and identifiable benefit in exchange and can reasonably estimate the fair value of the identifiable benefit received; otherwise, it is recorded as a reduction to revenues.

Research and Development and Software Development Costs

The Company expenses research and development costs as incurred.

Software development costs incurred prior to the establishment of technological feasibility are included in research and development costs as incurred. Eligible and material software development costs are capitalized upon the establishment of technological feasibility and before the general availability of such software products, including direct labor and related overhead costs, as well as stock-based compensation. The Company has defined technological feasibility as the establishment of a working model, which typically occurs when beta testing commences. The Company capitalized approximately \$5.6 million of development costs in 2015 for software products to be marketed or sold to customers. The capitalized costs are included in "Other assets" in the Company's Consolidated Balance Sheet and are being amortized on a product-by-product basis using the straight-line method over the estimated product life, generally three years, or on the ratio of current revenues to total projected product revenues, whichever is greater. Management believes that the capitalized software costs will be recoverable from future gross profits generated by these products.

Advertising

The Company expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2015 was \$13.6 million.

Income Taxes

The Company accounts for income taxes under the liability method, which recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets when, based on available objective evidence, it is more likely than not that the benefit of such assets will not be realized.

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

Foreign Currency Translation

Assets and liabilities of non-U.S subsidiaries, where the local currency is the functional currency, are translated to U.S. dollars at exchange rates in effect at the balance sheet date and income and expense accounts are translated at average exchange rates in effect during the period. The resulting translation adjustments are directly recorded to a separate component of "Accumulated other comprehensive (loss) income" on the Consolidated Balance Sheets. Foreign exchange transaction gains and losses from the remeasurement of non-functional currency denominated assets and liabilities are included in the Company's Consolidated Statement of Operations as part of "Interest and other income (expense), net".

The following table sets forth the change of foreign currency translation adjustments during the reporting period and the balance as of December 31 (in thousands):

	2015
Beginning balance	\$ 2,797
Foreign currency translation adjustments	(3,744)
Ending balance	\$ (947)

Derivative Instruments

The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated and qualifying as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a separate component of "Accumulated other comprehensive income" in the Consolidated Statement of Stockholders' Equity and is subsequently reclassified into earnings when the hedged exposure affects earnings. The excluded and ineffective portions of the gain or loss are reported in "Interest and other income (expense), net" on the Consolidated Statement of Operations, immediately. For derivative instruments that are not designated as cash flow hedges, changes in fair value are recognized in "Interest and other income (expense), net" on the Consolidated Statement of Operations in the period of change. The Company does not hold or issue derivative financial instruments for speculative trading purposes. The Company enters into derivatives only with counterparties that are among the largest U.S. banks, ranked by assets, in order to minimize its credit risk.

Share Repurchase and Treasury Shares

The Company periodically repurchases shares in the market at fair value. Treasury shares repurchased are recorded at cost as a reduction to Stockholders' equity. On retirement of the repurchased shares, Common stock is reduced by an amount equal to the number of shares being retired multiplied by the par value. The excess of the cost of treasury stock that is retired over its par value is allocated as a reduction between Accumulated deficit and Additional paid-in capital.

Net Income Per Share

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

Fair Value Measurements

The Company has certain financial assets and liabilities recorded at fair value which have been classified as Level 1, 2 or 3 within the fair value hierarchy. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices for similar assets in active markets, or identical or similar assets in inactive markets, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including its marketable securities and foreign currency contracts.

The Company's cash equivalents and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using inputs such as quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices for identical assets in active markets include money market funds. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments valued based on other observable inputs include U.S. Treasury, other government agencies, and corporate debt securities. Such instruments are generally classified within Level 2 of the fair value hierarchy. Level 2 instruments are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data.

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

In addition, the Company has facilities-related liabilities related to restructuring which were calculated based on the discounted future lease payments less sublease assumptions. This non-recurring fair value measurement is classified as a Level 3 measurement under ASC 820. The key assumptions used in the valuation model include discount rates, cash flow projections and estimated sublease income. These assumptions involve significant judgment, and are based on management's estimate of current and forecasted market conditions and are sensitive and susceptible to change. The carrying amounts reflected in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, accounts payable, and other current accrued liabilities approximate fair value due to their short-term maturities.

Stock-Based Compensation

The Company's stock-based compensation programs consist of grants of stock-based awards to employees and non-employee directors, including stock options, restricted stock units and performance shares, as well as purchase rights pursuant to the Company's Employee Stock Purchase Plan ("ESPP"). Stock-based compensation expense based on the estimated fair value of these awards is charged to operations over the requisite service period, which is generally the vesting period, including the effect of forfeitures.

The fair value of stock option and ESPP awards is estimated at the grant date using the Black-Scholes option valuation model. The fair value of restricted stock units is based on the market value of the Company's common stock on the date of grant. The fair value of a performance share with a market condition is estimated on the date of award, using a Monte Carlo simulation model to estimate the total return ranking of the Company's stock in relation to the target index of peer companies over each performance period. Stock-based compensation cost on performance shares with a market condition is not adjusted for subsequent changes regardless of the level of ultimate vesting.

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which amends the current guidance related to accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2017. The Company is evaluating the impact of adopting this standard on its Consolidated Financial Statements and disclosures.

In November 2015, the FASB issued an accounting standard update which simplifies presentation of deferred income taxes in the balance sheet by requiring deferred tax liabilities and assets to be classified as noncurrent in lieu of current requirement of separating them into current and noncurrent classification. The standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The standard can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company prospectively adopted the guidance in 2015 and it reclassified current deferred tax liabilities and assets to noncurrent on its December 31, 2015 Consolidated Balance Sheets.

In April 2015, the FASB issued an accounting standard update which provides guidance on whether a cloud computing arrangement includes a software license to a customer of such an arrangement. If a cloud computing arrangement includes a software license, a customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses, otherwise the customer should account for the arrangement as a service contract. The standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The standard can be applied prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. The Company prospectively adopted the guidance in 2015.

In April 2015, the FASB issued an accounting standard update which requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. The standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The standard will be applied retrospectively to each prior period presented. The Company adopted the guidance in 2015, and it reclassified approximately \$2.0 million of debt issuance costs related to the term loan as a deduction to the carrying amounts on its 2014 Consolidated Balance Sheets.

In May 2014, the FASB issued an accounting standard update which provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued an accounting standard update to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt the standard. The Company is evaluating the potential effects of the adoption of this standard on its Consolidated Financial Statements.

3. Discontinued Operations

On December 4, 2012, the Company completed the disposition of the net assets of its enterprise wireless voice solutions ("EWS") business to Mobile Devices Holdings, LLC, a Delaware limited liability corporation. Additional cash consideration of up to \$25.0 million is payable over the next two years subject to certain conditions, including meeting certain agreed-upon EBITDA-based milestones for fiscal 2015 and 2016. Such additional cash consideration will be accounted for as a gain on sale of discontinued operations, net of taxes, when it is realized or realizable.

4. Accounts Receivable Financing

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

In 2015, total transactions entered pursuant to the terms of the Financing Agreement were approximately \$232.6 million, of which \$139.4 million was related to the transfer of the financial assets arrangement. The financing of these receivables accelerated the collection of the Company’s cash and reduced its credit exposure. The amount due from the financing company as of December 31, 2015 was approximately \$32.7 million, of which \$22.1 million was related to the accounts receivable transferred, and is included in “Trade receivables” in the Company’s Consolidated Balance Sheet. Fees incurred pursuant to the Financing Agreement were approximately \$3.4 million for the fiscal year ended December 31, 2015. Those fees were recorded as a reduction to revenues in the Company’s Consolidated Statement of Operations.

5. Goodwill, Purchased Intangibles, and Software Development Costs

Polycom’s business is organized around four major geographic theaters: North America, Caribbean and Latin America (“CALA”), Europe, Middle East and Africa (“EMEA”) and Asia Pacific (“APAC”), which are considered its reporting units.

In the fourth quarter of 2015, the Company performed the qualitative assessment for its four reporting units. For each reporting unit, the Company weighed the relative impact of factors that are specific to the reporting unit as well as industry and macroeconomic factors. The reporting unit specific factors that were considered included the results of the most recent impairment tests, as well as financial performance and changes to the reporting units’ carrying amounts since the most recent impairment tests. For the industry in which the reporting units operate, the Company considered growth projections from independent sources and significant developments or transactions within the industry during 2015, where applicable. The Company also determined that macroeconomic factors during 2015 did not have a significant impact on the discount rates and growth rates used for the valuation performed. Based on the qualitative assessment, the Company concluded that for the four reporting units, it was more likely than not that the fair value of each reporting unit exceeded its carrying amount and there was no indication of impairment. As a result, performing the two-step impairment test was unnecessary and that no impairment charge was recognized for 2015.

The following table summarizes the changes in carrying amount of goodwill in each of the Company’s segments for the period (in thousands):

	Segments			
	Americas	EMEA	APAC	Total
Balance at December 31, 2014	308,159	101,882	149,190	559,231
Foreign currency translation	—	—	(456)	(456)
Balance at December 31, 2015	\$ 308,159	\$ 101,882	\$ 148,734	\$ 558,775

The following table sets forth details of the Company's total purchased intangible assets and capitalized software development costs for products to be sold as of the following period (in thousands):

	December 31, 2015		
	Gross Value	Accumulated Amortization & Impairment	Net Value
Core and developed technology	\$ 81,178	\$ (80,945)	\$ 233
Customer and partner relationships	79,525	(66,742)	12,783
Non-compete agreements	1,800	(1,700)	100
Trade name	3,400	(3,369)	31
Other	4,462	(4,462)	—
Finite-lived intangible assets	170,365	(157,218)	13,147
Indefinite-lived trade name	918	—	918
Total acquired intangible assets	\$ 171,283	\$ (157,218)	\$ 14,065
Capitalized software development costs for products to be sold	\$ 12,993	\$ (5,002)	\$ 7,991

The Company determined that a purchased trade name intangible of \$0.9 million had an indefinite life as the Company expects to generate cash flows related to this asset indefinitely. No impairment charges related to the Company's purchased intangible assets were recognized in the year ended December 31, 2015.

The following table summarizes amortization expense recorded in the period (in thousands):

	Year Ended December 31, 2015
Amortization of purchased intangibles in revenues	\$ 51
Amortization of purchased intangibles in cost of product revenues	956
Amortization of purchased intangibles in operating expenses	9,495
Total amortization expenses of purchased intangibles	\$ 10,502

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

The estimated future amortization expense of purchased intangible assets as of December 31, 2015 is as follows (in thousands):

Year ending December 31,	Amount
2016	\$ 8,478
2017	4,669
2018	—
2019	—
2020	—
Total	\$ 13,147

6. Balance Sheet Details

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

	December 31, 2015
Gross trade receivables	\$ 242,911
Returns and other reserves	(52,000)
Allowance for doubtful accounts	(3,023)
Total	\$ 187,888

Inventories consist of the following (in thousands):

	December 31, 2015
Raw materials	\$ 824
Work in process	117
Finished goods	88,451
Total	<u>\$ 89,392</u>

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

	December 31, 2015
Non-trade receivables	\$ 7,689
Prepaid expenses	33,174
Derivative assets	10,396
Other current assets	1,593
Total	<u>\$ 52,852</u>

Property and equipment, net, consist of the following (in thousands):

	Estimated useful Life	December 31, 2015
Computer equipment and software	3 to 5 years	\$ 315,828
Equipment, furniture and fixtures	1 to 7 years	123,124
Tooling equipment	3 years	18,123
Leasehold improvements	3 to 13 years	59,962
Total gross property and equipment		517,037
Less: Accumulated depreciation and amortization		(415,184)
Total		<u>\$ 101,853</u>

Deferred revenue consist of the following (in thousands):

	December 31, 2015
Short-term:	
Service	\$ 165,594
License	4,965
Total	<u>\$ 170,559</u>
Long-term:	
Service	\$ 82,598
License	3,593
Total	<u>\$ 86,191</u>

Changes in the deferred service revenue in 2015 are as follows (in thousands):

	Year Ended December 31, 2015
Balance at beginning of period	\$ 257,280
Additions to deferred service revenue	331,876
Amortization of deferred service revenue	(340,964)
Balance at end of period	<u>\$ 248,192</u>

Changes in the deferred license revenue in 2015 are as follows (in thousands):

	Year Ended December 31, 2015
Balance at beginning of period	\$ 5,524
Additions to deferred license revenue	5,706
Amortization of deferred license revenue	(2,672)
Balance at end of period	<u>\$ 8,558</u>

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

	December 31, 2015
Accrued expenses	\$ 25,179
Accrued co-op expenses	2,670
Restructuring reserves	16,187
Warranty obligations	10,172
Derivative liabilities	6,031
Employee stock purchase plan withholdings	9,668
Other accrued liabilities	15,188
Total	<u>\$ 85,095</u>

Changes in the warranty obligations in 2015 are as follows (in thousands):

	Year Ended December 31, 2015
Balance at beginning of period	\$ 11,613
Accruals for warranties issued during the period	12,444
Charges against warranty reserve during the period	(13,885)
Balance at end of period	<u>\$ 10,172</u>

7. Restructuring Costs

In 2015, the Company recorded \$11.1 million related to restructuring actions that included the elimination or relocation of various positions and the consolidation and elimination of certain facilities. These actions are generally intended to streamline and focus the Company's efforts and more properly align the Company's cost structure with its projected future revenue streams.

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

	Severance/Other	Facilities	Other	Total
Balance at December 31, 2014	\$ 664	\$ 40,909	\$ —	\$ 41,573
Additions to the reserve, net	13,999	(5,268)	801	9,532
Interest accretion	—	1,564	—	1,564
Non-cash adjustments	—	(696)	—	(696)
Cash payments	(6,591)	(18,054)	—	(24,645)
Balance at December 31, 2015	<u>\$ 8,072</u>	<u>\$ 18,455</u>	<u>\$ 801</u>	<u>\$ 27,328</u>

During 2015, management initiated the reduction or elimination of certain leased facilities and the elimination of approximately 11 percent of the Company's global workforce which is expected to be substantially complete by the third quarter of 2016. These actions were designed to improve its profitability by strategically investing in more accretive areas of the business and further leveraging its outsource partners, pursuant to the announcement in December 2015. As a result, in the fourth quarter of 2015, the Company recorded approximately \$9.4 million of charges for severance and other one-time employee benefits for the individuals impacted. The restructuring charges in 2015 also include approximately \$4.6 million for severance payments for certain employees and approximately \$2.7 million for facilities-related charges as part of discrete follow-on actions to previous restructuring actions, and adjustments of approximately \$8.0 million related to a change in assumptions used in our facilities-related restructuring reserves estimate. Additions to the reserve include \$1.6 million of deferred rent that was expensed in prior periods.

The Company expects the remaining charges related to these actions to be in the range of \$13 million to \$16 million, primarily related to its EMEA reportable segment. As of December 31, 2015, the restructuring reserve was primarily comprised of facilities-related liabilities. At the time the reserve is initially set up, the Company calculates the fair value of its facilities-related liabilities based on the discounted future lease payments less sublease assumptions. To the extent that actual sublease income, the timing of subleasing the facility, or the associated cost of, or the recorded liability related to subleasing or terminating the Company's lease obligations for these facilities is different than initial estimates, the Company adjusts its restructuring reserves in the period during which such information becomes known. This non-recurring fair value measurement is classified as a Level 3 measurement under ASC 820.

8. Debt

In September 2013, the Company entered into a Credit Agreement (the “Credit Agreement”) that provides for a \$250.0 million term loan (the “Term Loan”) maturing on September 13, 2018 (the “Maturity Date”), which bears interest at the Company’s option at either a base rate plus a spread of 0.50% to 1.00%, or a reserve adjusted LIBOR rate plus a spread of 1.50% to 2.00% based on the Company’s consolidated leverage ratio for the preceding four fiscal quarters.

The Company entered into the Credit Agreement in conjunction with and for purposes of funding purchases of the Company’s common stock pursuant to a \$250.0 million modified “Dutch Auction” self-tender offer announced in September 2013. The Term Loan is payable in quarterly installments of principal equal to approximately \$1.6 million which began on December 31, 2013, with the remaining outstanding principal amount of the Term Loan being due and payable on the Maturity Date. The Company may prepay the Term Loan, in whole or in part, at any time without premium or penalty. Amounts repaid or prepaid may not be borrowed again. The Term Loan is secured by substantially all the assets of the Company and certain domestic subsidiaries of the Company that are guarantors under the Credit Agreement, subject to certain exceptions and limitations.

The Credit Agreement contains customary affirmative and negative covenants, and financial covenants consisting of a consolidated fixed charge coverage ratio and a consolidated secured leverage ratio. The Company was in compliance with these covenants as of December 31, 2015. The Credit Agreement also includes customary events of default, the occurrence of which could result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts.

At December 31, 2015, the weighted average interest rate on the Term Loan was 2.3%, the accrued interest on the Term Loan was \$0.6 million, and the current and noncurrent portion of the outstanding Term Loan was \$5.7 million and \$228.8 million, net of unamortized debt issuance costs of \$0.5 million and \$0.9 million, respectively.

The following table summarizes interest expense recognized related to the Term Loan for the period presented (in thousands):

	Year Ended December 31, 2015
Contractual interest expense	\$ 5,246
Amortization of debt issuance costs	532
Total	\$ 5,778

As of December 31, 2015, future principal payments for long-term debt, including the current portion, are summarized as follows (in thousands):

Year Ending December 31,	Amount
2016	\$ 6,250
2017	6,250
2018	223,438
2019	—
2020	—
Thereafter	—
Total	\$ 235,938

9. Investments

The Company had cash and cash equivalents of \$435.1 million at December 31, 2015. Cash and cash equivalents generally consist of cash in banks, as well as highly liquid investments in money market funds, time deposits, savings accounts, commercial paper, and corporate debt securities.

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

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

At December 31, 2015, the Company's long-term investments had contractual maturities of one to two years.

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

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Balances at December 31, 2015:				
Investments-Short-term:				
U.S. government securities	\$ 49,036	\$ 4	\$ (45)	\$ 48,995
U.S. government agency securities	67,723	1	(30)	67,694
Non-U.S. government securities	7,303	—	(1)	7,302
Corporate debt securities	60,290	1	(40)	60,251
Total investments - short-term	<u>\$ 184,352</u>	<u>\$ 6</u>	<u>\$ (116)</u>	<u>\$ 184,242</u>
Investments-Long-term:				
U.S. government securities	\$ 8,058	\$ —	\$ (14)	\$ 8,044
U.S. government agency securities	14,510	—	(48)	14,462
Corporate debt securities	24,056	2	(80)	23,978
Total investments - long-term	<u>\$ 46,624</u>	<u>\$ 2</u>	<u>\$ (142)</u>	<u>\$ 46,484</u>

Unrealized Losses

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

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2015:						
U.S. government securities	\$ 48,445	\$ (59)	\$ —	\$ —	\$ 48,445	\$ (59)
U.S. government agency securities	71,861	(78)	—	—	71,861	(78)
Non-U.S. government securities	5,001	(1)	—	—	5,001	(1)
Corporate debt securities	52,571	(120)	—	—	52,571	(120)
Total investments	<u>\$ 177,878</u>	<u>\$ (258)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 177,878</u>	<u>\$ (258)</u>

In 2015, there were no investments in the Company's portfolio that were other-than temporarily impaired and the Company did not incur any material realized net gains or losses in the year ended December 31, 2015.

10. Fair Value Measurements

The tables below set forth the Company's recurring fair value measurements for the period presented (in thousands):

Description	Total	Fair Value Measurements at December 31, 2015 Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Fixed income available-for-sale securities			
Cash and cash equivalents			
Money market funds	\$ 10,313	\$ 10,313	\$ —
Non-U.S. government securities	975	—	975
Corporate debt securities	19,799	—	19,799
Short-term investments	184,242	—	184,242
Long-term investments	46,484	—	46,484
Total fixed income available-for-sale securities	<u>\$ 261,813</u>	<u>\$ 10,313</u>	<u>\$ 251,500</u>
Foreign currency forward contracts ^(a)	\$ 10,396	\$ —	\$ 10,396
Liabilities:			
Foreign currency forward contracts ^(b)	\$ 6,031	\$ —	\$ 6,031

(a) Included in short-term derivative asset as "Prepaid expenses and other current assets" in the Consolidated Balance Sheets.

(b) Included in short-term derivative liability as "Other accrued liabilities" in the Consolidated Balance Sheets.

There have been no transfers between Level 1 and Level 2 in 2015. There were no investments classified as Level 3 as of December 31, 2015.

In addition, the Company has facilities-related liabilities related to restructuring which were calculated based on the discounted future lease payments less sublease assumptions. This non-recurring fair value measurement is classified as a Level 3 measurement under ASC 820. See Note 7 Restructuring Costs for further details.

The Company's Term Loan under its Credit Agreement is classified within Level 2 instruments as the borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities. The Company has elected not to record its Term Loan at fair value, but has measured it at fair value for disclosure purpose. At December 31, 2015, the estimated fair value of the Term Loan, using observable market inputs, was approximately \$226.5 million.

11. Business Risks and Credit Concentration

The Company sells products and services which serve the communications equipment market globally. Substantially all of the Company's revenues are derived from sales of its products and their related services. A substantial majority of the Company's revenue is from value-added resellers, distributors and service providers. In 2015, one channel partner, ScanSource Communications ("ScanSource"), accounted for 20% of the Company's total revenues.

The Company subcontracts the manufacture of most of its products to Celestica Inc. (“Celestica”), Askey Computer Corporation (“Askey”), Foxconn Technology Group (“Foxconn”), Pegatron Corporation (“Pegatron”), and VTech Holding Ltd. (“VTech”), which are all third-party contract manufacturers. The Company uses Celestica’s facilities in Thailand and Laos, and Askey’s, Foxconn’s, Pegatron’s, and VTech’s facilities in China and should there be any disruption in services due to natural disaster, terrorist acts, quarantines or other disruptions associated with infectious diseases, or economic or political difficulties in any of these countries or in Asia or for any other reason, such disruption would harm its business and results of operations. The Company relies on a limited number of third-party contract manufacturers and suppliers to provide manufacturing services for its products. Substantially all of the Company’s video products are manufactured in Celestica’s facilities in Thailand and Laos. All of the Company’s other third party contract manufacturers supply products out of facilities in China. While the Company has begun to develop secondary manufacturing sources for certain products, currently the manufacture and supply of a substantial portion of its products is essentially sole-sourced from Celestica. Although the Company works closely with all its third- party contract manufacturing partners on manufacturing schedules, its future operating results could be adversely affected if a contract manufacturer or supplier were unable to meet their production commitments for any reason. Moreover, any incapacitation of any of the Company’s or its subcontractors’ manufacturing sites, due to destruction, natural disaster or similar events could result in a loss of product inventory. As a result of any of the foregoing, the Company may not be able to meet demand for its products, which could negatively affect revenues in the quarter of the disruption or longer depending upon the magnitude of the event, and could harm its reputation.

The Company markets its products to distributors and end-users throughout the world. Management performs ongoing credit evaluations of the Company’s customers and maintains an allowance for potential credit losses. The Company’s credit risk may increase with the expansion of Polycom’s product offerings as customers place larger orders for initial stocking orders and its growth in emerging markets. There can be no assurance that the Company’s credit loss experience will remain at or near historical levels. At December 31, 2015, one customer, ScanSource, accounted for 20% of total gross accounts receivable.

The Company is dependent in part on its continued ability to hire, assimilate and retain highly qualified management personnel. Changes to its global organization and changes in key management personnel could cause disruption to the business and have a negative impact on the Company’s operating results while the operational areas are in transition.

The Company has purchased licenses for technology incorporated in its products. The value of these long-term assets is monitored for any impairment and if it is determined that a write-down is necessary, this charge could have a material adverse effect on the Company’s consolidated financial statements. There were no such charges in 2015.

12. Commitments and Contingencies

Litigation and SEC Investigation

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

In 2015, we did not incur any litigation reserves and payments related to on-going litigation matters.

On July 23, 2013, the Company announced that Andrew M. Miller had resigned from the positions of Chief Executive Officer and President of Polycom and from Polycom's Board of Directors. The Company disclosed that Mr. Miller's resignation came after a review by the Audit Committee of certain expense submissions by Mr. Miller, where the Audit Committee found certain irregularities in the submissions, for which Mr. Miller had accepted responsibility. Specifically, the Audit Committee determined that Mr. Miller improperly submitted personal expenses to Polycom for payment as business expenses and, in doing so, submitted to Polycom false information about the nature and purpose of expenses.

SEC Investigation. As previously disclosed, the Company has been cooperating with the Enforcement Staff of the Securities and Exchange Commission ("SEC") in connection with its investigation focused on Mr. Miller's expenses and his resignation. On March 31, 2015 the Company entered into a settlement with the SEC. Under the terms of the settlement in which the Company did not admit or deny the SEC's findings, the Company paid \$750,000 in a civil penalty, and agreed not to commit or cause any violations of certain provisions of the Securities Exchange Act of 1934 and related rules.

Class Action Lawsuit. On July 26, 2013, a purported shareholder class action, initially captioned *Neal v. Polycom Inc., et al.*, Case No. 3:13-cv-03476-SC, and presently captioned *Nathanson v. Polycom, Inc., et al.*, Case No. 3:13-cv-03476-SC, was filed in the United States District Court for the Northern District of California against the Company and certain of its current and former officers and directors. On December 13, 2013, the Court appointed a lead plaintiff and approved lead and liaison counsel. On February 24, 2014, the lead plaintiff filed a first amended complaint. The amended complaint alleged that, between January 20, 2011 and July 23, 2013, the Company issued materially false and misleading statements or failed to disclose information regarding the Company's business, operational and compliance policies, including with respect to its former Chief Executive Officer's expense submissions and the Company's internal controls. The lawsuit further alleged that the Company's financial statements were materially false and misleading. The amended complaint alleged violations of the federal securities laws and sought unspecified compensatory damages and other relief. On April 3, 2015, the Court dismissed all claims against Polycom and granted plaintiffs leave to amend. The lead plaintiff filed a second complaint on May 4, 2015. Polycom and the individual defendants moved to dismiss the second amended complaint on June 26, 2015. On January 8, 2016, the parties executed a settlement agreement. The proposed settlement is subject to, and contingent upon, the Court's review and approval. The lead plaintiff moved for preliminary approval of the settlement. That motion is pending. If the settlement is approved, the settlement payment will be made by Polycom's insurance carrier.

Derivative Lawsuits. On August 21, 2013 and October 16, 2013, two purported shareholder derivative suits, captioned *Saraceni v. Miller, et al.*, Case No. 5:13-cv-03880, and *Donnelly v. Miller, et al.*, Case No. 5:13-cv-04810, respectively, were filed in the United States District Court for the Northern District of California against certain of the Company's current and former officers and directors. On October 31, 2013, these two federal derivative actions were consolidated into *In re Polycom, Inc. Derivative Litigation*, Lead Case No. 3:13-cv-03880. On January 13, 2015, the Court dismissed the operative complaint and granted plaintiffs leave to amend. On April 3, 2015, the Court approved a stipulation dismissing the action with prejudice and entering judgment in favor of defendants.

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

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

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

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

Standby Letters of Credit

The Company has standby letters of credit totaling approximately \$1.5 million at December 31, 2015.

Leases

The Company leases certain office facilities and equipment under noncancelable operating leases expiring between 2016 and 2023. As of December 31, 2015, the following future minimum lease payments are due under the current lease obligations (in thousands). In addition to these minimum lease payments, the Company is contractually obligated under the majority of its operating leases to pay certain operating expenses during the term of the lease such as maintenance, taxes and insurance.

Year Ending December 31,	Gross Minimum Lease Payments	Sublease Receipts	Net Minimum Lease Payments
2016	\$26,369	\$(2,499)	\$23,870
2017	23,331	(2,932)	20,399
2018	18,378	(2,802)	15,576
2019	16,737	(2,271)	14,466
2020	13,987	(1,050)	12,937
Thereafter	18,643	(89)	18,554
Total	\$117,445	\$(11,643)	\$105,802

Rent expense, including the effect of any future rent escalations or rent holiday periods, is recognized on a straight-line basis over the term of the lease, which is deemed to commence upon the Company gaining access and control of the facility. Rent expense for the year ended December 31, 2015 was \$23.5 million.

13. Foreign Currency Derivatives

The Company maintains a foreign currency risk management program that is designed to reduce the volatility of the Company's economic value from the effects of unanticipated currency fluctuations. International operations generate both revenues and costs denominated in foreign currencies. The Company's policy is to hedge significant foreign currency revenues and costs to improve margin visibility and reduce earnings volatility associated with unexpected changes in currency. The Company also hedges its net foreign currency monetary assets and liabilities, primarily resulting from foreign currency denominated receivables and payables with foreign exchange forward contracts to reduce the risk that the Company's earnings and cash flows will be adversely affected by changes in foreign currency exchange rates.

Non-Designated Hedges

The Company executes non-designated foreign exchange forward contracts of foreign currency denominated receivables and payables, primarily denominated in Euros, British Pounds, Israeli Shekels, Brazilian Reals, Chinese Yuan, and Mexican Pesos. These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset remeasurement gains and losses on the hedged assets and liabilities.

The following table summarizes the Company's notional position by currency, and approximate U.S. dollar equivalent, at December 31, 2015 of the outstanding non-designated hedges (foreign currency and dollar amounts in thousands):

	Original Maturities of 360 Days or Less			Original Maturities of Greater than 360 Days		
	Foreign Currency	USD Equivalent	Positions	Foreign Currency	USD Equivalent	Positions
Brazilian Real	18,557	\$ 4,752	Buy	—	\$ —	—
Brazilian Real	36,378	\$ 9,141	Sell	—	\$ —	—
Chinese Yuan	—	\$ —	—	85,718	\$ 13,364	Buy
Chinese Yuan	81,970	\$ 12,703	Sell	—	\$ —	—
Euro	27,878	\$ 30,365	Buy	17,876	\$ 21,249	Buy
Euro	31,275	\$ 33,998	Sell	62,745	\$ 74,084	Sell
British Pound	5,800	\$ 8,587	Buy	20,420	\$ 31,326	Buy
British Pound	5,555	\$ 8,214	Sell	24,937	\$ 38,446	Sell
Israeli Shekel	10,530	\$ 2,728	Buy	66,322	\$ 17,012	Buy
Israeli Shekel	57,984	\$ 14,961	Sell	—	\$ —	—
Mexican Peso	18,178	\$ 1,051	Buy	—	\$ —	—
Mexican Peso	36,063	\$ 2,127	Sell	—	\$ —	—

The following table shows the effect of the Company's non-designated hedges in the Consolidated Statement of Operations (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain	Amount of Gain
	Recognized in Income on Derivative	Recognized in Income on Derivative
Year Ended December 31, 2015		
Foreign exchange contracts	Interest and other income (expense), net	\$ 5,440

Cash Flow Hedges

The Company designates forward contracts as cash flow hedges of foreign currency revenues and expenses, primarily the Chinese Yuan, Euro, British Pound and Israeli Shekel. All foreign exchange contracts are carried at fair value on the Consolidated Balance Sheets and the maximum duration of foreign exchange forward contracts do not exceed 13 months.

The following tables show the effect of the Company's derivative instruments designated as cash flow hedges in the Consolidated Statement of Operations for the period presented (in thousands):

	Gain or (Loss) Recognized in OCI-Effective Portion	Location of Gain or (Loss) Reclassified from OCI into Income-Effective Portion	Gain or (Loss) Reclassified from OCI into Income Effective Portion	Location of Gain or (Loss) Recognized-Ineffective Portion and Amount Excluded from Effectiveness Testing	Gain or (Loss) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing (a)
Year Ended December 31, 2015					
Foreign exchange contracts	\$ 4,954	Product revenues	\$ 14,028	Interest and other income (expense), net	\$ 468
		Cost of revenues	(1,597)		
		Sales and marketing	(3,864)		
		Research and development	(800)		
		General and administrative	(1,388)		
	<u>\$ 4,954</u>		<u>\$ 6,379</u>		<u>\$ 468</u>

(a) For the year ended December 31, 2015, there were no gains or losses for the ineffective portion.

As of December 31, 2015, the Company estimated that all values reported in "Accumulated other comprehensive (loss) income" in the Consolidated Statement of Stockholders' Equity will be reclassified to income within the next twelve months.

In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the related hedge gains and losses on the cash flow hedge would be immediately reclassified to "Interest and other income (expense), net" on the Consolidated Statement of Operations. There were no ineffective portions of gains or losses from cash flow hedges in the year ended December 31, 2015.

The following table summarizes the Company's notional position by currency, and approximate U.S. dollar equivalent, at December 31, 2015 of the outstanding cash flow hedges, all of which are carried at fair value on the Consolidated Balance Sheet (in thousands):

	Original Maturities of 360 Days or Less			Original Maturities of Greater than 360 Days		
	Foreign Currency	USD Equivalent	Positions	Foreign Currency	USD Equivalent	Positions
Chinese Yuan	—	—	—	122,082	\$18,725	Buy
Euro	—	—	—	26,824	\$29,932	Buy
Euro	—	—	—	73,655	\$82,077	Sell
British Pound	—	—	—	24,379	\$37,070	Buy
British Pound	—	—	—	34,363	\$51,741	Sell
Israeli Shekel	24,900	\$6,467	Buy	9,678	\$2,465	Buy

The estimates of fair value are based on applicable and commonly quoted prices and prevailing financial market information as of December 31, 2015. See Note 10 for additional information on the fair value measurements for all financial assets and liabilities, including derivative assets and derivative liabilities that are measured at fair value in the consolidated financial statements on a recurring basis. The following table sets forth the Company's derivative instruments measured at gross fair value as reflected in the Consolidated Balance Sheet (in thousands):

	December 31, 2015	
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments
Derivative assets ^(a) :		
Foreign exchange contracts	\$ 2,283	\$ 8,113
Derivative liabilities ^(b) :		
Foreign exchange contracts	\$ 2,269	\$ 3,762

(a) All derivative assets are recorded as "Prepaid expenses and other current assets" in the Consolidated Balance Sheets.

(b) All derivative liabilities are recorded as "Other accrued liabilities" in the Consolidated Balance Sheets.

Offsetting Derivative Assets and Liabilities

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

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

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
As of December 31, 2015:						
Foreign exchange contracts	\$ 10,396	\$ —	\$ 10,396	\$ (5,413)	\$ —	\$ 4,983

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

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
As of December 31, 2015:						
Foreign exchange contracts	\$ 6,031	\$ —	\$ 6,031	\$ (5,413)	\$ —	\$ 618

14. Stockholders' Equity

Share Repurchase Programs

From time to time, the Company's Board of Directors has approved plans under which the Company may at its discretion purchase shares of its common stock in the open market or through privately negotiated transactions. In July 2014, the Company's Board of Directors approved a share repurchase plan ("the 2014 repurchase plan") under which the Company may at its discretion purchase shares in the open market with an aggregate value of up to \$200 million. The Company expects to fund the share repurchases through cash on hand and future cash flow from operations. In 2015, the Company purchased 7.0 million of common stock for cash of \$90.0 million from the open market.

The repurchased shares of common stock have been retired and reclassified as authorized and unissued shares. As of December 31, 2015, the Company had a remaining authorization of purchase up to an additional \$60.1 million worth of shares in the open market under the 2014 repurchase plan.

Accumulated Other Comprehensive (Loss) Income

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

	Unrealized Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for- Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2014	\$ 1,366	\$ (52)	\$ 2,797	\$ 4,111
Other comprehensive income (loss) before reclassifications	4,954	(159)	(3,744)	1,051
Amounts reclassified from accumulated other comprehensive income ^(a)	(6,379)	14	—	(6,365)
Net current-period other comprehensive loss	(1,425)	(145)	(3,744)	(5,314)
Balance as of December 31, 2015	\$ (59)	\$ (197)	\$ (947)	\$ (1,203)

- (a) See Note 13 for details of gains and losses, net of taxes, reclassified out of accumulated other comprehensive (loss) income into net income related to cash flow hedges and each line item of net income affected by the reclassification. Gains and losses related to available-for-sale securities were reclassified into "Interest and other income (expense), net" in the Consolidated Statement of Operations, net of taxes.

15. Stock-Based Employee Benefit Plans

Equity Incentive Plans

Polycom's equity incentive plans provide for, among other award types, stock options, restricted stock units, and performance shares to be granted to employees and non-employee directors. On May 26, 2011, stockholders approved the 2011 Equity Incentive Plan ("2011 Plan") and reserved for issuance under the 2011 Plan of 19,800,000 shares, terminating any remaining shares available for grant under the 2004 Equity Incentive Plan ("2004 Plan") as of such date. On June 5, 2013, shareholders approved the addition of 10,500,000 shares to the available shares for issuance under the 2011 Plan. Shareholders also approved an additional 5,600,000 shares to the available shares for issuance under the 2011 Plan on May 27, 2015. Finally, to the extent any shares, not to exceed 13,636,548 shares, would have been returned to our 2004 Plan after May 26, 2011, on account of the expiration, cancellation or forfeiture of awards granted under our 1996 Stock Incentive Plan or the 2004 Plan, those shares instead have been added to the reserve of shares available under the 2011 Plan.

Activity under the above plans for the year ended December 31, 2015 was as follows:

	Shares Available for Grant ⁽¹⁾
Balances, December 31, 2014	13,439,432
Additional shares available for grant ⁽²⁾	5,600,000
Performance shares granted ⁽³⁾	(1,709,336)
Performance shares forfeited	352,930
Restricted stock units granted	(5,050,548)
Restricted stock units forfeited	1,291,177
Options granted	—
Options forfeited	10,193
Options expired	8,480
Balances, December 31, 2015	13,942,328

(1) For purpose of above table, shares are counted on a fungible basis (i.e., at a higher multiplier than one-for-one) for full value award activity.

(2) Approved by stockholders on May 27, 2015.

(3) Includes 131,212 additional shares (202,066 shares applying the applicable fungible ratio) resulting from above target performance.

Stock Options

Under the terms of the 2004 Plan and the 2011 Plan, options may not be granted at prices lower than fair market value at the date of grant. Options granted expire seven years from the date of grant and are only exercisable upon vesting. The Company settles employee stock option exercises with newly issued common shares. There were no stock options granted in 2015.

Activity under the stock option plans for the year ended December 31, 2015 was as follows:

	Outstanding Options		Weighted Avg Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
	Number of Shares	Weighted Avg Exercise Price		
Balances, December 31, 2014	240,493	\$ 11.62		
Options granted	—	\$ —		
Options exercised	(53,219)	\$ 11.65		
Options forfeited	(10,193)	\$ 11.61		
Options expired	(8,480)	\$ 11.74		
Balances, December 31, 2015	168,601	\$ 11.61	3.41	\$ 165,685

All stock options granted were fully vested and exercisable as of December 31, 2015. The total pre-tax intrinsic value of options exercised during the year ended December 31, 2015 was \$0.1 million.

The options outstanding and currently exercisable by exercise price at December 31, 2015 are as follows:

Range of Exercise Price	Stock Options Outstanding and Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price
\$0.75	42	4.06	\$ 0.75
\$11.61	168,559	3.41	\$ 11.61
	168,601	3.41	\$ 11.61

As of December 31, 2015, all 168,601 outstanding options were exercisable at a weighted average exercise price of \$11.61. As of December 31, 2015 all compensation cost related to stock options has been recognized.

Performance Shares and Restricted Stock Units

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

The Company granted performance shares to certain employees and executives, which contain a market condition based on Total Shareholder Return (“TSR”) and which measure the Company’s relative performance against the NASDAQ Composite Index. Such performance shares will be delivered in common stock at the end of the vesting period based on the Company’s actual performance compared to the target performance criteria and may equal from zero percent (0%) to one hundred fifty percent (150%) of the target award. The fair value of a performance share with a market condition is estimated on the date of award, using a Monte Carlo simulation model to estimate the total return ranking of the Company’s stock among the NASDAQ Composite Index companies over each performance period.

The Company also granted RSUs. The fair value of RSUs is based on the closing market price of the Company’s common stock on the date of award. The awards will be delivered in common stock at the end of each vesting period. Stock-based compensation expense for the RSUs is recognized using the graded vesting method.

In addition, the Company granted RSUs to non-employee directors. The awards vest quarterly over approximately one year from the date of grant. The fair value of these awards is based on the closing market price of the Company’s common stock on the date of grant. Stock-based compensation expense for these awards is amortized over six months from the date of grant due to voluntary termination provisions contained in the underlying agreements.

The following table summarizes the changes in unvested performance shares, RSUs and non-employee director RSUs for 2015:

	Number of Shares ⁽¹⁾	Weighted Average Grant Date Fair Value
Unvested shares at December 31, 2014	6,825,691	\$ 12.26
Performance shares granted ⁽²⁾	1,109,959	\$ 14.07
Restricted stock units granted ⁽³⁾	3,279,577	\$ 13.49
Performance shares vested and issued	(782,210)	\$ 13.81
Restricted stock units vested and issued	(2,670,181)	\$ 12.47
Performance shares forfeited	(217,108)	\$ 12.54
Restricted stock units forfeited	(803,545)	\$ 12.34
Unvested shares at December 31, 2015	<u>6,742,183</u>	\$ 12.88

(1) For the purposes of this table, shares are counted on a one-for-one basis, not on a fungible share counting basis.

(2) Includes 131,212 additional shares resulting from above target performance.

(3) Includes 135,000 restricted stock units granted to non-employee directors.

As of December 31, 2015, there was approximately \$33.4 million, of total unrecognized compensation cost related to unvested awards, which is expected to be recognized over a weighted-average period of one year. The total fair value of shares vested in 2015 was \$44.1 million.

Employee Stock Purchase Plan

Under the current Employee Stock Purchase Plan (“ESPP”), the Company can grant stock purchase rights to all eligible employees during a two-year offering period with purchase dates at the end of each six-month purchase period (each January and July). Participants lock in a purchase price per share at the beginning of the offering period upon plan enrollment. If the stock price on any subsequent offering period enrollment date is less than the lock-in price, the ESPP has a reset feature that automatically withdraws and re-enrolls participants into a new two-year offering period. Further, the ESPP permits participants to increase or decrease contribution elections at the end of a purchase period for future purchase periods within the same offering period. Shares are purchased through employees’ payroll deductions, currently up to a maximum of 15% of employees’ compensation, at purchase prices equal to 85% of the lesser of the fair market value of the Company’s common stock at either the date of the employee’s entrance to the offering period or the purchase date. No participant may purchase more than \$25,000 worth of common stock in any one calendar year period, or 10,000 shares of common stock on any one purchase date. As of December 31, 2015, there were 9,164,481 shares available to be issued under the ESPP. A total of 2,150,586 shares were purchased in 2015 at an average per share price of \$9.89.

During the three months ended September 30, 2015, the Company modified the terms of certain existing awards under its ESPP as a result of the reset feature of the ESPP plan, and incurred a cumulative \$7.1 million of incremental expense to be recognized over the vesting term. Approximately \$2.3 million of the incremental expense was recognized in 2015.

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense recorded and its allocation within the Consolidated Statement of Operations (in thousands):

	Year Ended December 31, 2015
Cost of product revenues	\$ 2,917
Cost of service revenues	4,711
Stock-based compensation expense included in cost of revenues	<u>7,628</u>
Sales and marketing	13,187
Research and development	9,307
General and administrative	<u>15,017</u>
Stock-based compensation expense included in operating expenses	37,511
Stock-based compensation expense related to employee equity awards and employee stock purchases	45,139
Tax benefit	8,171
Stock-based compensation expense related to employee equity awards and employee stock purchases, net of tax	<u>\$ 36,968</u>

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

The estimated fair value per share of employee stock purchase rights granted pursuant to ESPP in 2015 ranged from \$2.56 to \$4.27 and was estimated on the date of grant using the Black-Scholes option valuation model based on the following assumptions:

	2015
Expected volatility	28.08-30.73%
Risk-free interest rate	0.07-0.68%
Expected dividends	0.0%
Expected life (years)	0.49-2.0

The fair value of employee stock purchase rights is recognized as expense using the graded vesting method.

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

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

The dividend yield assumption is based on the Company's history of not paying dividends and no future expectations of dividend payouts.

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

16. Employee Benefit Plan

The Company has a defined contribution benefit plan under Section 401(k) of the Internal Revenue Code (the "Polycom 401(k) Plan"), which covers substantially all U.S. employees. Eligible employees may elect to contribute pre-tax amounts to the Polycom 401(k) Plan, through payroll deductions, subject to certain limitations. The Company does not offer its own stock as an investment option in the Polycom 401(k) Plan. The Company matches in cash 50% of the first 6% of compensation employees contribute to the Polycom 401(k) Plan, up to a certain maximum per participating employee per year. All matching contributions are 100% vested after one year of employment.

The Company's contributions to the Polycom 401(k) Plan totaled approximately \$2.7 million in 2015.

17. Income Taxes

Income tax expense consists of the following (in thousands):

	Year Ended December 31, 2015
Income tax expense	
Current	
Federal	\$ 4,486
State	360
Foreign	8,176
	<u>\$ 13,022</u>
Deferred	
Federal	\$ 202
State	43
Foreign	2,677
	<u>\$ 2,922</u>
Total income tax expense	<u>\$ 15,944</u>

Income before income taxes is categorized geographically as follows (in thousands):

	Year Ended December 31, 2015
United States	\$ 15,998
Foreign	69,921
Total income before income taxes	<u>\$ 85,919</u>

The Company's tax provision differs from the provision computed using statutory tax rates as follows (in thousands):

	Year Ended December 31, 2015
Federal tax at statutory rate	\$ 30,071
State taxes, net of federal benefit	1,129
Non-deductible share-based compensation expense	1,138
Foreign income at tax rates different than U.S. rates	(17,715)
Changes in reserves for uncertain tax positions	(751)
Research and development tax credit	(1,612)
Non-deductible executive compensation expense	725
Subpart F income	1,018
Non-deductible acquisition and divestiture costs	146
Sale of intellectual property	947
Foreign tax credit	(625)
Other	1,473
Tax provision	\$ 15,944

The tax effects of temporary differences that give rise to the deferred tax assets (liabilities) are presented below (in thousands):

	December 31, 2015
Property and equipment, net, principally due to difference in depreciation	\$ 9,154
Acquired intangibles	4,942
Inventory	5,824
Restructuring reserves	7,222
Deferred revenue	11,852
Other reserves	21,791
Share-based compensation	10,616
Net operating loss and capital loss carryforwards	6,512
Tax credit carryforwards	25,512
Deferred tax asset	103,425
Capitalized research and development costs	(560)
Acquired intangibles	(1,759)
Deferred tax asset before valuation allowance	\$ 101,106
Valuation allowance	(11,375)
Deferred tax asset, net of valuation allowance	\$ 89,731

As of December 31, 2015, the Company had approximately \$6.3 million in tax effected net operating loss carryforwards, \$0.3 million in tax effected capital loss carryforwards and \$25.5 million in tax effected credit carryforwards. The net operating loss carryforwards and credits include \$1.4 million and \$0.1 million, respectively, related to acquisitions and, as a result, are limited in the amount that can be recognized in any one year. The capital and net operating loss carryforward assets begin to expire in 2019 and tax credit carryforwards begin to expire in 2016. Included in the net deferred tax asset balance is an \$11.4 million valuation allowance, \$3.0 million of which relates to research credits in a jurisdiction with a history of credits in excess of taxable profits, and \$8.4 million of which includes net operating losses of \$4.4 million and other deferred tax assets of \$4.0 million for a foreign subsidiary that has a history of losses.

The Company provides for U.S. income taxes on the earnings of foreign subsidiaries unless they are considered permanently invested outside of the U.S. At December 31, 2015, the cumulative amount of earnings upon which U.S. income tax has not been provided is approximately \$403.8 million. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be repatriated to the U.S.

Excess tax benefits associated with stock option exercises are credited to stockholders' equity. The reduction of income taxes payable resulting from the exercise of employee stock options and other employee stock programs that was credited to stockholders' equity was approximately \$2.7 million for the year ended December 31, 2015.

As a result of certain employment and capital investment actions, the Company's income in certain foreign countries is subject to reduced tax rates. A portion of these tax incentives expired in 2015, and the majority of the remaining tax incentives will expire in 2016, however, the Company intends to reapply for the incentives. The income tax benefit attributable to tax incentives was estimated to be \$3.9 million (\$0.03 per share) in 2015, of which \$2.7 million was based on tax incentives that are set to expire at the end of fiscal 2016.

On July 27, 2015, the United States Tax Court (the "Court") issued a taxpayer-favorable opinion with respect to Altera Corporation ("Altera")'s litigation with the Internal Revenue Service ("IRS"). The litigation relates to the treatment of share-based compensation expense in an inter-company cost-sharing arrangement with the taxpayer's foreign subsidiary for fiscal years 2004 through 2007. In its opinion, the Court accepted Altera's position of excluding share-based compensation in its cost sharing arrangement and concluded that the related IRS Regulations were invalid. The Tax Court opinion will not be complete until the tax computation is finalized and entered into the Tax Court record. The Tax Court granted the IRS an additional extension of time to submit their tax computation by November 12, 2015. Upon the finalization of the tax computation, the Tax Court opinion became final, and the IRS has a 90 day period to appeal. If the IRS appeals, it could take two to three years for the litigation to be resolved. The Company is currently unable to predict if the IRS will appeal the opinion and the outcome of any such appeal. As such, no adjustment to the consolidated financial statement is recorded at this time. The Company is monitoring this case for any material impact to the Consolidated Financial Statements and its potential favorable implications to the Company's cost-sharing arrangement.

In 2015, the Company recorded reserve reductions of \$1.9 million, all of which were due to the expiration of statutes of limitation in both the U.S. and foreign jurisdictions.

The aggregate changes in the balance of the Company's gross unrecognized tax benefits were as follows for the period indicated (in thousands):

	December 31, 2015
Beginning balance	\$ 21,642
Additions based on tax positions taken during the current period	441
Reductions related to a lapse of applicable statute of limitations	(1,956)
Ending balance	<u>\$ 20,127</u>

The unrecognized tax benefits would affect income tax expense if recognized. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2015, the Company had approximately \$1.9 million of accrued interest and penalties related to uncertain tax positions.

By the end of 2016, uncertain tax positions may be reduced as a result of a lapse of the applicable statutes of limitations or the resolutions of ongoing audits in various jurisdictions. The Company anticipates that the reduction in 2016 will approximate \$1.3 million and the reserve releases would be recorded as adjustments to tax expense in the period released.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2012. Foreign income tax matters for most foreign jurisdictions have been concluded for years through 2009, except India which is concluded through March 2007, and Brazil, China, Israel, and Singapore which have been concluded for years through 2010 and France which has been concluded for years through 2011.

18. Net Income Per Share

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

	Year Ended December 31, 2015
Numerator	
Net income	\$ 69,975
Denominator	
Weighted average shares outstanding, basic	133,581
Effect of dilutive potential common shares	3,813
Weighted average shares outstanding, diluted	137,394
Basic net income per share	
Net income per share	\$ 0.52
Diluted net income per share	
Net income per share	\$ 0.51
Antidilutive employee stock-based awards, excluded	449

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

19. Business Segment Information

The Company conducts its business globally and is managed geographically in three segments: (1) Americas, which consists of North America and CALA reporting units; (2) EMEA; and (3) APAC. The segments are determined in accordance with how management views and evaluates the Company's business and allocates its resources, and are based on the criteria as outlined in the authoritative guidance.

Segment Revenue and Profit

Segment revenues consist of product and service revenues. Product revenues are attributed to a segment based on the ordering location of the customer. For internal reporting purposes and determination of segment contribution margins, geographic segment product revenues may differ slightly from actual geographic revenues due to internal revenue allocations between the Company's segments. Service revenues are generally attributed to a segment based on the end-user's location where services are performed. A significant portion of each segment's expenses arises from shared services and infrastructure that Polycom has historically allocated to the segments in order to realize economies of scale and to use resources efficiently.

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

Segment Data

The results of the reportable segments are derived directly from Polycom's management reporting system. Management measures the performance of each segment based on several metrics, including contribution margin as defined above. Asset data, with the exception of gross accounts receivable, is not reviewed by management at the segment level.

Financial information for each reportable geographical segment as of and for the fiscal year ended December 31, 2015, based on the Company's internal management system and as utilized by the Company's Chief Operating Decision Maker ("CODM"), its Chief Executive Officer, is as follows (in thousands):

	Americas	EMEA	APAC	Total
2015:				
Revenue	\$ 617,211	\$ 336,894	\$ 313,120	\$ 1,267,225
<i>% of total revenue</i>	49 %	26 %	25 %	100 %
Contribution margin	\$ 236,482	\$ 141,744	\$ 147,512	\$ 525,738
<i>% of segment revenue</i>	38 %	42 %	47 %	41 %
At December 31, 2015:				
Gross accounts receivable	\$ 97,742	\$ 78,726	\$ 66,443	\$ 242,911
<i>% of total gross accounts receivable</i>	40 %	33 %	27 %	100 %

* The United States and China, individually, accounted for more than 10% of the Company's revenues in 2015. Net revenues in the United States were \$528.0 million for the year ended December 31, 2015. Net revenues in China were \$143.4 million for the year ended December 31, 2015. During 2015, one customer, ScanSource, accounted for 20% of the Company's revenues. At December 31, 2015, ScanSource accounted for 20% of total gross accounts receivable.

The following tables set forth the reconciliation of segment information to Polycom consolidated totals (in thousands):

	Year Ended December 31, 2015
Segment contribution margin	\$ 525,738
Corporate and unallocated costs	(370,368)
Stock-based compensation	(45,139)
Effect of stock-based compensation cost on warranty expense	(336)
Amortization of purchased intangibles	(10,451)
Restructuring costs	(11,096)
Transaction-related costs	(574)
Interest and other income (expense), net	(1,855)
Income before provision for income taxes	<u>\$ 85,919</u>

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

	Year Ended December 31, 2015
Revenues:	
UC group systems	\$ 772,744
UC personal devices	267,249
UC platform	227,232
Total	<u>\$ 1,267,225</u>

The Company's fixed assets, net of accumulated depreciation, are located in the following geographical areas (in thousands):

	December 31, 2015
United States	\$ 77,082
EMEA	10,149
APAC	13,486
Other	1,136
Total	<u>\$ 101,853</u>

No single country outside of the United States has more than 10% of total net fixed assets as of December 31, 2015.

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Section 6: EX-99.4 (EXHIBIT 99.4)

Exhibit 99.4



Polycom, Inc.

Condensed Consolidated Financial Statements (Unaudited)
As of March 31, 2018, and for the three months ended March 31, 2018

and 2017

POLYCOM, INC.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
As of March 31, 2018, and for the three months ended March 31, 2018 and 2017

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

	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 52,908	\$ 86,005
Trade receivables, net	115,814	134,622
Inventories	71,973	71,293
Prepaid expenses and other current assets	35,122	29,683
Total current assets	\$ 275,817	\$ 321,603
Property and equipment, net	58,096	61,705
Goodwill	493,187	502,809
Purchased intangibles, net	8,662	918
Deferred taxes	63,160	64,878
Other assets	17,218	18,481
Total assets	\$ 916,140	\$ 970,394
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 72,749	\$ 68,042
Accrued payroll and related liabilities	31,898	54,478
Income taxes payable	5,185	4,929
Deferred revenue	178,220	172,538
Current portion of long-term debt	16,733	11,736
Other accrued liabilities	50,976	69,073
Total current liabilities	\$ 355,761	\$ 380,796
Long-term deferred revenue	82,582	82,800
Income taxes payable	9,072	9,072
Long-term debt	664,296	694,854
Other non-current liabilities	80,957	75,438
Total liabilities	\$ 1,192,668	\$ 1,242,960
Commitments and contingencies (Note 11)		
Stockholders' deficit		
Common stock, \$0.001 par value; authorized: 101,000 shares; issued and outstanding: 100,100 shares at March 31, 2018 and December 31, 2017	\$ —	\$ —
Additional paid-in capital	138,394	138,394
Accumulated deficit	(415,144)	(409,089)
Accumulated other comprehensive income (loss)	222	(1,871)
Total stockholders' deficit	\$ (276,528)	\$ (272,566)
Total liabilities and stockholders' deficit	\$ 916,140	\$ 970,394

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

POLYCOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2018	2017
Revenues		
Product revenues	\$ 192,312	\$ 199,782
Service revenues	78,916	79,803
Total revenues	271,228	279,585
Cost of revenues		
Cost of product revenues	84,289	90,436
Cost of service revenues	28,370	29,493
Total cost of revenues	112,659	119,929
Gross profit	158,569	159,656
Operating expenses		
Sales and marketing	66,811	66,445
Research and development	36,360	33,060
General and administrative	17,312	16,989
Amortization of goodwill	14,026	14,005
Amortization of purchased intangibles	391	1,992
Restructuring costs	166	1,734
Transaction-related costs	4,408	1,547
Total operating expenses	139,474	135,772
Operating income	19,095	23,884
Interest and other income (expense), net		
Interest expense	(18,744)	(20,078)
Other income (expense), net	(10,506)	(12,173)
Interest and other income (expense), net	(29,250)	(32,251)
Loss before provision for income taxes	(10,155)	(8,367)
Provision for income taxes	(4,100)	(5,905)
Net loss	\$ (6,055)	\$ (2,462)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

POLYCOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2018	2017
Net loss	\$ (6,055)	\$ (2,462)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	2,093	1,042
Gains/losses on hedging securities:		
Net losses reclassified into earnings for revenue hedges	—	151
Net losses reclassified into earnings for expense hedges	—	288
Net gains (losses) on hedging securities	—	439
Other comprehensive income	2,093	1,481
Comprehensive loss	\$ (3,962)	\$ (981)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

POLYCOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (6,055)	\$ (2,462)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,359	10,096
Amortization of goodwill	14,026	14,005
Amortization of purchased intangibles	390	1,992
Amortization of capitalized software development costs for products to be sold	950	1,134
Amortization of debt issuance costs	3,689	3,136
Write-down of excess and obsolete inventories	2,870	3,189
(Gain) Loss on disposal of property and equipment	(33)	214
Unrealized loss on mark-to-market of derivative	9,924	12,913
Realized loss on cash flow hedges	—	439
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	19,651	(803)
Inventories	(1,304)	(3,217)
Deferred taxes	(310)	172
Prepaid expenses and other assets	(2,587)	(7,546)
Accounts payable	4,095	(15,049)
Taxes payable	(361)	71
Other accrued liabilities and deferred revenue	(28,862)	(16,722)
Net cash provided by operating activities	24,442	1,562
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,073)	(4,792)
Capitalized software development costs for products to be sold	(424)	(471)
Net cash used in Obihai acquisition	(11,774)	—
Net cash used in investing activities	(16,271)	(5,263)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt, net of debt issuance costs	—	(34,688)
Payments on debt	(29,688)	—
Issuance costs related to loans	—	(7,847)
Payment of the accrued consideration to dissenting shareholders	(11,791)	—
Net cash used in financing activities	(41,479)	(42,535)
Effect of exchange rate changes on cash and cash equivalents	211	304
Net decrease in cash and cash equivalents	(33,097)	(45,932)
Cash and cash equivalents, beginning of period	86,005	100,075
Cash and cash equivalents, end of period	\$ 52,908	\$ 54,143
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 15,229	\$ 20,395
Cash paid for income taxes	\$ 1,342	\$ 327
Liabilities recorded for purchases of property and equipment	\$ 2,991	\$ 1,257
Accrued consideration to dissenting shareholders	\$ —	\$ 11,791

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

1. Basis of Presentation

Principles of Accounting and Consolidation

The accompanying unaudited financial statements, consisting of the Condensed Consolidated Balance Sheet as of March 31, 2018, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017, the Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2018 and 2017, and the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017, have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In addition, the Condensed Consolidated Balance Sheet at December 31, 2017 has been derived from the audited consolidated financial statements as of that date. Accordingly, these Condensed Consolidated Financial Statements do not include all of the information and Notes typically found in the audited consolidated financial statements and notes thereto. In the opinion of management, the accompanying unaudited financial statements have been prepared on a basis consistent with the Company’s December 31, 2017 audited financial statements and all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement have been included. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s consolidated financial statements for the year ended December 31, 2017.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and operating results for the three months ended March 31, 2018 and are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The Condensed Consolidated Financial Statements include the accounts of Polycom, Inc. (“Polycom” or “the Company”) and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Definitive Agreement with Plantronics, Inc.

On March 28, 2018, the Company and its parent, Triangle Private Holdings II, LLC (“Triangle” or “the Parent”), entered into a Stock Purchase Agreement with Plantronics, Inc. (“Plantronics”) to be acquired from Triangle for \$2.0 billion, of which \$1.6 billion will be paid in cash and the remaining \$0.4 billion will be paid in 6,352,201 common shares of Plantronics for all the Company’s issued and outstanding shares of capital stock. The transaction is expected to be completed in the third quarter of fiscal 2018.

2. Summary of Significant Accounting Policies

There have been no material changes in the Company’s significant accounting policies for the three months ended March 31st, 2018, as compared to those disclosed in the Company’s annual financial statements for the year ended December 31, 2017.

Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, thereby improving the usefulness of information reported to financial statement users. The update also requires certain disclosures about stranded tax effects. The standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The amendments in this update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has estimated and recorded the effect of the Tax Cuts and Jobs Act on its financial statements at December 31, 2017 and March 31, 2018 and its position is subject to remeasurement before December 31, 2018. The Company is evaluating the impact of the reclass from AOCI on its consolidated financial statements and disclosures.

In January 2017, the FASB issued an accounting standard update that clarifies the definition of a business to help companies evaluate whether acquisition or disposal transactions should be accounted for as asset groups or as businesses. The standard will be effective for the Company starting on January 1, 2019. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and disclosures.

In October 2016, the FASB issued an accounting standard update which improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The standard will be effective for the Company starting on January 1, 2019. Early adoption is permitted. The Company is evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In August 2016, the FASB issued an accounting standard update which amends the current guidance for the classification of certain receipts and cash payments on the statement of cash flows. The standard will be effective for the Company starting on January 1, 2019. Early adoption is permitted. The Company is evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In February 2016, the FASB issued an accounting standard update which requires a lessee to generally recognize a right-of-use asset and a lease liability on the balance sheet. The standard will be effective January 1, 2020, Early adoption is permitted. The standard will be applied using a modified retrospective approach. The Company is evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") which supersedes the revenue recognition requirements under Accounting Standard Codification ("ASC") 605, Revenue Recognition. ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires reporting companies to disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will become effective for the Company on January 1, 2019. The Company will adopt Topic 606 utilizing the modified retrospective transition method, which recognizes the cumulative effect of initially applying Topic 606 as an adjustment to retained earnings at the adoption date.

The Company is in the process of establishing new accounting policies, implementing systems, processes, and internal controls necessary to support the requirements of the standard. The Company has completed its preliminary assessment of the financial statement impact of the new standard, and will continue to update that assessment during the implementation phase as information becomes available. The Company expects that the standard will not have a material impact on total revenues in the year of adoption as it will primarily impact revenue recognition for its software arrangements.

The standard will require incremental contract acquisition costs, such as sales commissions for customer contracts to be capitalized, and amortized if certain criteria are met. The Company's current policy is to expense these costs as incurred. The Company is in the process of evaluating the potential effects on capitalization of these costs.

3. Acquisition

On January 29, 2018, the Company acquired all the issued and outstanding capital stock of Obihai Technology, Inc. (“Obihai”), a San Jose-based development company of software and hardware for VOIP audio solutions for approximately \$15.1 million.

The Company expects that the Obihai software and development team will enable more rapid product customization and broader appeal to service provider customers, enabling increased revenue growth of the Company’s voice telephony business.

The Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The fair value assigned to the purchased intangibles acquired is determined using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management. As the consideration transferred exceeds the fair value of the net assets acquired, the Company has recorded goodwill on the acquisition, which will be amortized over 10 years in accordance with the simplified goodwill accounting alternative made available by the FASB for private companies, and adopted by the Company effective January 1, 2017. Goodwill is primarily attributable to the planned growth in new markets and synergies expected to be achieved from the combined operations of the Company and Obihai. As of March 31, 2018, finalization of the total consideration is pending the approval of adjustments to the Obihai net working capital on close of the transaction. Consequently, the Company has not finalized the fair values of assets acquired and liabilities assumed, and the fair value estimates set forth below are subject to adjustment during the measurement period. Additional information that existed as of the acquisition date may become known to the Company during the remainder of the measurement period. This period is not to exceed 12 months from the acquisition date.

A summary of the preliminary purchase price and allocation of the purchase price (in thousands) as of January 29, 2018 is as follows:

Consideration:	March 31, 2018	
Total Consideration	\$	15,105
Fair value of assets acquired and liabilities assumed:		
Cash	\$	3,814
Other current and non-current assets		2,475
Goodwill		4,111
Purchased intangibles ^(a)		8,134
Accounts payable		(552)
Short-term taxes payable		(589)
Other current and non-current liabilities		(144)
Long-term deferred tax liability		(2,144)
Total fair value of assets acquired and liabilities assumed	\$	15,105

(a) Purchased intangible assets consist of developed technology (\$7.2 million), trade name (\$0.5 million) and customer and partner relationships (\$0.5 million) and are expected to be amortized over their estimated useful lives of 5 to 10 years. See Note 5 - Goodwill, Purchased Intangibles, and Software Development Costs for further details.

In addition, contingent compensation in the amount of \$7.0 million will be paid upon the completion of certain milestones so long as these are completed on or before November 12, 2018.

4. Accounts Receivable Financing

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

In the three months ended March 31, 2018 and 2017, total transactions entered pursuant to the terms of the Financing Agreement were approximately \$48.7 million and \$48.0 million, respectively, of which \$23.2 million and \$30.9 million, respectively, were related to the transfer of the financial assets arrangement. The financing of these receivables accelerated the collection of the Company's cash and reduced its credit exposure. Included in "Trade receivables, net" in the Company's Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017 was approximately \$28.5 million and \$35.6 million, respectively due from the financing company, of which \$17.5 million and \$21.7 million, respectively, was related to the accounts receivable transferred. Fees incurred pursuant to the Financing Agreement were approximately \$0.8 million for each of the three months ended March 31, 2018 and 2017. Those fees were recorded as a reduction to "Revenues" in the Company's Condensed Consolidated Statements of Operations.

5. Goodwill, Purchased Intangibles, and Software Development Costs

The following table summarizes the changes in carrying amount of goodwill for the period presented (in thousands):

Balance at December 31, 2017	\$	502,809
Additions		4,111
Goodwill amortization		(14,026)
Foreign currency translation		293
Balance at March 31, 2018	\$	<u>493,187</u>

The following table sets forth details of the Company's total purchased intangible assets and capitalized software development costs for products to be sold as of the following periods (in thousands):

	March 31, 2018			December 31, 2017		
	Gross Value	Accumulated Amortization & Impairment	Net Value	Gross Value	Accumulated Amortization & Impairment	Net Value
Developed technology	\$ 7,230	\$ (361)	\$ 6,869	\$ —	\$ —	\$ —
Trade name	502	(18)	484			
Customer and partner relationships	79,928	(79,537)	391	79,525	(79,525)	—
Finite-lived intangible assets	87,660	(79,916)	7,744	79,525	(79,525)	—
Indefinite-lived trade name	918	—	918	918	—	918
Total acquired intangible assets	<u>\$ 88,578</u>	<u>\$ (79,916)</u>	<u>\$ 8,662</u>	<u>\$ 80,443</u>	<u>\$ (79,525)</u>	<u>\$ 918</u>
Capitalized software development costs for products to be sold	<u>\$ 19,273</u>	<u>\$ (14,800)</u>	<u>\$ 4,473</u>	<u>\$ 18,849</u>	<u>\$ (13,849)</u>	<u>\$ 5,000</u>

Purchased intangibles include a purchased trade name intangible of \$0.9 million with an indefinite life as the Company expects to generate cash flows related to this asset indefinitely.

The Company recorded amortization expense of \$0.4 million and \$2.0 million in operating expenses in the three months ended March 31, 2018 and 2017, respectively.

6. Balance Sheet Details

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

	March 31, 2018	December 31, 2017
Gross trade receivables	\$ 173,157	\$ 196,332
Returns and other reserves	(55,639)	(59,818)
Allowance for doubtful accounts	(1,704)	(1,892)
Total	<u>\$ 115,814</u>	<u>\$ 134,622</u>

Inventories consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Raw materials	\$ 931	\$ 1,421
Work in process	18	7
Finished goods	71,024	69,865
Total	<u>\$ 71,973</u>	<u>\$ 71,293</u>

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

	March 31, 2018	December 31, 2017
Non-trade receivables	\$ 6,116	\$ 6,586
Prepaid expenses	26,297	20,835
Other current assets	2,709	2,262
Total	<u>\$ 35,122</u>	<u>\$ 29,683</u>

Property and equipment net, consist of the following (in thousands):

	Estimated useful Life	March 31, 2018	December 31, 2017
Computer equipment and software	3 to 5 years	\$ 267,924	\$ 270,337
Equipment, furniture and fixtures	1 to 7 years	106,829	105,818
Tooling equipment	3 years	13,664	13,124
Leasehold improvements	3 to 13 years	52,649	52,911
Total gross property and equipment		441,066	442,190
Less: Accumulated depreciation and amortization		(382,970)	(380,485)
Total		<u>\$ 58,096</u>	<u>\$ 61,705</u>

Deferred revenue consists of the following (in thousands):

	March 31, 2018	December 31, 2017
Short-term:		
Service	\$ 169,226	\$ 163,036
License	8,994	9,502
Total	<u>\$ 178,220</u>	<u>\$ 172,538</u>
Long-term:		
Service	74,867	75,645
License	7,715	7,155
Total	<u>\$ 82,582</u>	<u>\$ 82,800</u>

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

	March 31, 2018	December 31, 2017
Accrued expenses	\$ 28,763	\$ 27,848
Accrued co-op expenses	1,876	1,798
Restructuring reserves	5,070	6,409
Warranty obligations	8,731	8,808
Other accrued liabilities	6,536	24,210
Total	<u>\$ 50,976</u>	<u>\$ 69,073</u>

Changes in the warranty obligations during the three months ended March 31, 2018 and 2017 are as follows (in thousands):

	Three Ended March 31,	
	2018	2017
Balance at beginning of period	\$ 8,808	\$ 8,183
Accruals for warranties issued during the period	2,956	2,644
Charges against warranty reserve during the period	(3,033)	(2,934)
Balance at end of period	<u>\$ 8,731</u>	<u>\$ 7,893</u>

7. Restructuring Costs

In the three months ended March 31, 2018 and 2017, the Company recorded \$0.2 million and \$1.7 million, respectively, related to various restructuring actions that included contract termination costs associated with the consolidation and elimination of certain facilities and employee-related severance charges associated with the elimination or relocation of various positions. These actions are generally intended to streamline and focus the Company's efforts and more properly align the Company's cost structure with its projected future revenue streams.

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

	Severance/Other	Facilities	Other	Total
Balance at December 31, 2017	\$ 1,048	\$ 12,448	\$ —	\$ 13,496
Additions to the reserve, net	1,178	(1,154)	—	24
Interest accretion	—	141	—	141
Non-cash adjustments	—	—	—	—
Cash payments	(895)	(1,912)	—	(2,807)
Balance at March 31, 2018	<u>\$ 1,331</u>	<u>\$ 9,523</u>	<u>\$ —</u>	<u>\$ 10,854</u>

The reserves are recorded in "Other accrued liabilities" for the short-term portion and in "Other non-current liabilities" for the long-term portion in the Condensed Consolidated Balance Sheets.

As of March 31, 2018, the restructuring reserve was primarily comprised of facilities-related liabilities which will continue to incur charges over the life of the leases ranging from 2018 to 2023. At the time the reserve is initially set up, the Company calculates the fair value of its facilities-related liabilities based on the discounted future lease payments less sublease assumptions. To the extent that actual sublease income, the timing of subleasing the facility, or the associated cost of, or the recorded liability related to subleasing or terminating the Company's lease obligations for these facilities is different than initial estimates, the Company adjusts its restructuring reserves in the period during which such information becomes known.

8. Debt

In September 2016, simultaneously with the Merger, the Parent entered into a new credit agreement (the "2016 Credit Agreement") that provides for term loans in an aggregate principal amount of \$925 million (the "2016 Term Loans") consisting of a \$750 million first lien term loan ("1st Lien Term Loan") maturing on September 27, 2023 ("1st Lien Maturity Date") and a \$175 million second lien term loan ("2nd Lien Term Loan") maturing on September 27, 2024 ("2nd Lien Maturity Date") and a revolving credit facility of \$50 million (the "Revolver") which terminates on September 27, 2021 ("Revolver Termination Date"). Immediately following the Merger, the Parent assigned all of its rights and obligations as the initial borrower to the Company. The 1st Lien Term Loan and the Revolver bore interest at the Company's option, at either a base rate plus a spread of 5.00% to 5.50% or a LIBOR rate plus a spread of 6.00% to 6.50%, based on the 1st Lien Term Loan leverage ratio at the end of the previous period. The 1st Lien Term Loan is payable in quarterly installments of principal equal to approximately \$4.7 million for the first eight quarters which began on the last business day of the quarter ended December 31, 2016, and increasing thereafter with the remaining outstanding principal amount being due and payable on the 1st Lien Maturity Date. The Company could prepay the 1st Lien Term Loan, in whole or in part, at any time without premium or penalty. Amounts repaid or prepaid could not be borrowed again.

On January 31, 2017, the 1st Lien Term Loan was amended to replace the existing debt of \$710.3 million at the borrowing rate stated above with a replacement debt at a lower borrowing rate. The new interest rate, at the Company's option, is either a base rate plus a spread of 3.75% to 4.25% or a LIBOR rate plus a spread of 4.75% to 5.25%, based on the 1st Lien Term Loan leverage ratio at the end of the previous period. All other terms and conditions of the 1st Lien Term Loan agreement remained the same as prior to the amendment. The Company paid a 1% re-finance premium and \$0.7 million in other fees and expenses. The debt amendment was treated as modification of the existing debt and the re-finance premium and other fees and expenses were added to the pool of debt issuance costs being amortized over the term of the 1st Lien Term Loan.

The 2nd Lien Term Loan bears interest at the Company's option, at a base rate plus a spread of 9.0% or a LIBOR rate plus a spread of 10.0%. The outstanding principal amount on the 2nd Lien Term Loan is due and payable on the 2nd Lien Maturity Date with no option to prepay. The 2016 Term Loans are secured by substantially all the assets of the Company and certain domestic subsidiaries of the Company that are guarantors under the 2016 Credit Agreement, subject to certain exceptions and limitations. As of March 31, 2018, the Company has collateralized secured letters of credit of \$0.7 million using the Revolver. No other drawdowns have been made against the Revolver.

The 2016 Credit Agreement contains customary affirmative and negative covenants, and financial covenants consisting of a Total Leverage ratio. The Company was in compliance with these covenants as of March 31, 2018 and through the date of the issuance of these Condensed Consolidated Financial Statements. The 2016 Credit Agreement also includes customary events of default, the occurrence of which could result in the acceleration of the obligations under the 2016 Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the 2016 Credit Agreement at a per annum rate equal to 2.0% above the applicable interest rate for any overdue principal and 2.0% above the rate applicable for base rate loans for any other overdue amounts.

At March 31, 2018, the interest rates on the 2016 Term Loans were 7.1% and 11.8% for the 1st Lien Term Loan and the 2nd Lien Term Loan, respectively and the accrued interest on the 2016 Term Loans was \$1.5 million.

Current Portion of Long-Term Debt (in thousands):

	March 31, 2018	December 31, 2017
Current portion of long-term debt	\$ 28,282	\$ 23,438
Less: Unamortized issuance costs associated with current portion of long-term debt	(11,549)	(11,702)
Total current portion of long-term debt	\$ 16,733	\$ 11,736

Long -Term Debt (in thousands):

	Maturities	March 31, 2018	December 31, 2017
1st Lien Term Loan of \$750 million	2023	560,875	590,563
2nd Lien Term Loan of \$175 million	2024	175,000	175,000
Computer equipment leases	2021	524	
Total gross long-term debt		\$ 736,399	\$ 765,563
Less Unamortized discount and issuance costs attributable to long-term debt		(55,370)	(58,973)
Less Current portion of long-term debt, net		(16,733)	(11,736)
Total long-term debt		\$ 664,296	\$ 694,854

The following table summarizes interest expense recognized related to the 2016 Term Loans for the periods presented (in thousands):

	Three months ending March 31, 2018	2017
Contractual interest expense	\$ 15,055	\$ 16,942
Amortization of debt issuance costs	3,689	3,136
Total	\$ 18,744	\$ 20,078

As of March 31, 2018, future principal payments for long-term debt, including the current portion, are summarized as follows (in thousands):

Year Ending December 31,	Amount
2018	\$ 18,864
2019	37,661
2020	42,360
2021	56,287
2022	56,250
Thereafter	524,977
Total	\$ 736,399

9. Fair Value Measurements

In February 2017, the Company entered into long-term cross-current swap contracts which are measured at fair value based on quoted market prices, and where these are not available, on prices from external pricing services, solicited broker/dealer prices, or prices derived from alternative pricing models, utilizing discounted cash flows. Pricing models generally use inputs from market sources such as interest rate yield curves, currency exchange rates and option volatilities. These inputs have a significant effect on the reported fair values of assets and liabilities and related income and expenses.

At March 31, 2018 and December 31, 2017, the estimated fair value of the cross-currency swap transactions totaled \$65.8 million and \$55.9 million, respectively and were classified within Level 2 instruments. See Note 12 - Foreign Currency Derivatives for further details.

In addition, the Company has facilities-related liabilities related to restructuring which were calculated based on the discounted future lease payments less sublease assumptions. This non-recurring fair value measurement is classified as a Level 3 measurement under ASC 820. See Note 6 - Restructuring Costs for further details.

The Company's 2016 Term Loans under its 2016 Credit Agreements are classified within Level 2 instruments as the borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities. The Company has elected not to record its 2016 Term Loans at fair value, but has measured it at fair value for disclosure purposes. At March 31, 2018 and December 31, 2017, the estimated fair value of the 2016 Term Loans, using observable market inputs, was approximately \$739.4 million and \$770.0 million, respectively.

10. Business Risks and Credit Concentration

The Company sells products and services which serve the communications equipment market globally. Substantially all of the Company's revenues are derived from sales of its products and their related services. A substantial majority of the Company's revenue is from value-added resellers, distributors and service providers. At March 31, 2018, two channel partners, Company A and Company B, accounted for 25% and 11%, respectively of the Company's total revenues. At March 31, 2017, two channel partners, Company A and Company B, accounted for 29% and 13%, respectively, of the Company's total revenues.

The Company subcontracts the manufacture of most of its products to a small group of vendors which are all third-party contract manufacturers. These vendor's facilities are located in Thailand, Laos and China and should there be any disruption in services due to natural disaster, terrorist acts, quarantines or other disruptions associated with infectious diseases, or economic or political difficulties in any of these countries or in Asia or for any other reason, such disruption would harm its business and results of operations. While the Company has begun to develop secondary manufacturing sources for certain products, currently the manufacture and supply of a substantial portion of its products is essentially sole-sourced. Furthermore, any incapacitation of any of the Company's or its subcontractors' manufacturing sites, due to destruction, natural disaster or similar events could result in a loss of product inventory. As a result of any of the foregoing, the Company may not be able to meet demand for its products, which could negatively affect revenues in the quarter of the disruption or longer depending upon the magnitude of the event, and could harm its reputation.

The Company markets its products to distributors and end-users throughout the world. Management performs ongoing credit evaluations of the Company's customers and maintains an allowance for potential credit losses. The Company's credit risk may increase with the expansion of Polycom's product offerings as customers place larger orders for initial stocking orders and its growth in emerging markets. There can be no assurance that the Company's credit loss experience will remain at or near historical levels. At March 31, 2018, Company A accounted for 13% of total gross accounts receivable. At March 31, 2017, no single distributor or customer accounted for 10% or higher of total gross accounts receivable.

The United States accounted for more than 10% of the Company's revenues in the three months ended March 31, 2018 and 2017. Net revenues in the United States were \$116.5 million and \$126.5 million for the three months ended March 31, 2018 and 2017, respectively.

11. Commitments and Contingencies

Litigation

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

On September 27, 2016, as a result of the acquisition of the Company by Siris Capital, one shareholder demanded judicial appraisal of the fair value of its shares in the Company claiming they were worth more than the price attributable to them as a result of the acquisition. On March 27, 2018, the Company entered into a confidential settlement agreement with such shareholder and the matter was dismissed in April 2018 by the Delaware Chancery Court. As of March 31, 2018, all of the unpaid shares (at the Merger purchase price of \$12.50 per share) and related interest has been paid.

As a result of certain employee allegations at one of its foreign subsidiaries about a possible violation of the Foreign Corrupt Practices Act that occurred in prior reporting periods, the Company has undertaken an internal investigation and voluntarily self-disclosed this matter to the United States Department of Justice (the "DOJ") and the United States Securities and Exchange Commission (the "SEC"). The Company is currently in discussions with the DOJ and the SEC and is seeking a declination and/or non-prosecution agreement to resolve this matter. At this time, no provision with respect to this matter has been made in the Company's Condensed Consolidated Financial Statements.

Officer and Director Indemnifications

As permitted or required under Delaware law and to the maximum extent allowable under that law, the Company has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has a director and officer insurance policy that mitigates the Company's exposure and enables the Company to recover a portion of any future amounts paid.

Other Indemnifications

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

12. Foreign Currency Derivatives

Non-Designated Hedges

In February 2017, the Company entered into long-term cross-currency swap transactions intended to protect the value of the investment made by the Parent from fluctuations in the Euro over the duration of the investment. The swap transactions did not qualify for hedge accounting and are treated as economic hedges. The cross-currency swap transactions are marked-to-market at the end of each reporting period, with the gain or loss recognized in Interest and other income (expense), in the Condensed Consolidated Statements of Operation.

The following table shows the effect of the Company's non-designated hedges in the Condensed Consolidated Statements of Operations (in thousands):

Derivatives Not Designated As Hedging Instruments	Location of Gain/(Loss) Recognized in Income from Derivatives	Amount of Gain/(Loss) Recognized in Income from Derivatives
		Three Months Ended March 31, 2018
Foreign Exchange Contracts	Interest and other income (expense), net	\$ (9,537)
		Three Months Ended March 31, 2017
Foreign Exchange Contracts	Interest and other income (expense), net	\$ (12,913)

At March 31, 2018 and 2017, the Company's derivative instruments in the form of long-term cross currency swap contracts were measured at their gross fair value and recorded in Other non-current liabilities in the Condensed Consolidated Balance Sheets. The fair value of derivative instruments at March 31, 2018 and December 31, 2017 were \$65.8 million and \$55.9 million, respectively.

Cash Flow Hedges

Prior to September 2016, the Company designated forward contracts as cash flow hedges of foreign currency revenues and expenses, primarily the Chinese Yuan, Euros and British Pounds. All foreign exchange contracts were carried at fair value on the Condensed Consolidated Balance Sheets and the maximum duration of foreign exchange forward contracts did not exceed 13 months. In September 2016, all outstanding cash flow hedges were cancelled and the then effective gains and losses, which had been triggered and recorded as a component of "Accumulated other comprehensive (loss) income" were reclassified to revenues and operating expenses, depending upon the underlying exposure hedged, through the first quarter of fiscal 2017 when the underlying forecasted foreign currency transactions affected earnings.

The following tables show the effect of the Company's derivative instruments designated as cash flow hedges in the Condensed Consolidated Statements of Operations for the following periods (in thousands):

	Gain or (Loss) Recognized in OCI- Effective Portion	Location of Gain or (Loss) Reclassified from OCI into Income-Effective Portion	Gain or (Loss) Reclassified from OCI into Income - Effective Portion	Location of Gain or (Loss) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing	Gain or (Loss) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing (a)
Three Months Ended March 31, 2017					
Foreign exchange contracts	\$ —	Product revenues	\$ (151)	Interest and other income (expense), net	\$ —
		Cost of revenues	(71)		
		Sales and marketing	(163)		
		Research and development	(13)		
		General and administrative	(41)		
	<u>\$ —</u>		<u>\$ (439)</u>		<u>\$ —</u>

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

All values remaining in accumulated other comprehensive loss have been reclassified to income in the three months ended March 31, 2017.

There were no ineffective portions of gains or losses from cash flow hedges in the three months ended March 31, 2017.

See Note 9 for additional information on the fair value measurements for all financial assets and liabilities, including derivative liabilities that are measured at fair value in the Condensed Consolidated Financial Statements on a recurring basis.

Offsetting Derivative Assets and Liabilities

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

At March 31, 2018 and December 31, 2017, the Company had long-term debt and interest payable outstanding with one of its derivative counterparties under the long-term cross currency swap contracts. The contracts were in a loss position, resulting in a long-term derivative liability as of those dates. If the contracts change to a gain position in future periods, the resulting long-term derivative asset could be offset against long-term debt and interest liabilities under certain default provisions.

The following table sets forth the derivatives which can be offset (in thousands):

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
As of March 31, 2018:						
Foreign exchange contracts	\$ 21,899	\$ —	\$ 21,899	\$ (21,899)	\$ —	\$ —
As of December 31, 2017:						
Foreign exchange contracts	\$ 18,658	\$ —	\$ 18,658	\$ (18,658)	\$ —	\$ —

13. Stockholders' Equity

Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, net of tax, by component (in thousands).

The tax effects were not shown separately, as the impacts were not material.

	Foreign Currency Translation
Balance as of December 31, 2017	\$ (1,871)
Other comprehensive income (loss)	2,093
Balance as of March 31, 2018	<u>\$ 222</u>

14. Employee Benefit Plans

Long Term Incentive Plan

In September 2016, the Company and its' Board of Directors approved the Polycom, Inc. 2016 Long Term Incentive Plan ("2016 LTIP"). Under the 2016 LTIP, certain officers and key employees were granted incentive awards ("IRs"). The fair value of the awards is based on the valuation of Polycom, Inc. The maximum number of IRs that may be granted under the 2016 LTIP is 59,343,479 awards, of which 49,731,250 and 35,250,000 were granted and outstanding as at March 31, 2018 and 2017, respectively. The grant date fair value of the outstanding awards was \$13.7 million as of March 31, 2018. All awards granted contain performance-based vesting criteria that can only be achieved through certain events as defined in the 2016 LTIP, such as the sale of the company ("Liquidity Event"). Because of the performance criteria, compensation expense will only be recognized once the performance targets are considered probable of achievement through consummation of a Liquidity Event. As a result, no compensation expense was recorded during the three months ended March 31, 2018 and 2017. Compensation expense, related to the periods for which the requisite service has already been rendered and the applicable performance-based criteria has been achieved, will be recognized in the period in which it becomes probable the performance targets defined within the IR agreements will be achieved. The IR agreements would be classified as a liability upon the consummation of a sale of the company, which would require the Company to determine the fair value of the awards as of the date of sale for the purposes of recognizing share based compensation. Although the Company and its Parent entered into a definitive agreement on March 28, 2018 to be acquired by Plantronics, until the purchase is complete, which is expected to be completed in the third quarter of fiscal 2018, the performance-based criteria has not been met and accordingly no compensation expense has been recognized. Since the acquisition will be paid in cash and common shares of Plantronics, upon completion of the purchase, the fair value of the IRs on the sale date will be impacted by several factors including the cash on the sale date and Plantronics stock price on the settlement date of the IRs. Accordingly, the sale date fair value may differ materially from the grant date fair value.

15. Income Taxes

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

	Three Months Ended March 31,	
	2018	2017
Income tax benefit	\$ (4,100)	\$ (5,905)
Effective tax rate	40.4%	70.6%

For the three months ended March 31, 2018 and 2017, the Company recorded income tax benefits of \$4.1 million and \$5.9 million, respectively. The effective tax rate for the three months ended March 31, 2018 of 40.4% differs from the U.S. federal statutory rate of 21% primarily due to non-deductible permanent adjustments, impacts associated with proportional earnings from the Company's operations in foreign jurisdictions, U.S. taxation of Global Intangible Low-Taxed Income ("GILTI"), and revisions to the original SAB 118 estimates. The effective tax rate for the three months ended March 31, 2017 of 70.6% differs from the U.S. federal statutory rate of 35% primarily due to non-deductible goodwill and other permanent adjustments offset, in part, by impacts associated with proportional earnings from the Company's operations in foreign jurisdictions.

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

This Company is a U.S. based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions, and has entered into agreements with the local governments in certain foreign jurisdictions where the Company has significant operations to provide it with favorable tax rates in those jurisdictions if certain criteria are met. Tax benefits realized from favorable tax rates for the quarters ended March 31, 2018 and 2017 were not material to the Company's income tax expense.

On December 22, 2017, the United States enacted major tax reform legislation, Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (2017 Tax Act). The 2017 Tax Act imposes a repatriation tax on accumulated earnings of foreign subsidiaries, implements a territorial tax system together with a current tax on certain foreign earnings and lowers the general corporate income tax rate to 21%. On December 22, 2017, the SEC staff issued SAB 118 that allows companies to record provisional estimated amounts during a measurement period not to extend beyond one year of the enactment date. The Company is currently analyzing the 2017 Tax Act, and in certain areas, has made reasonable estimates of the effects on the consolidated financial statements and tax disclosures, including the amount of the repatriation tax and changes to existing deferred tax balances.

The repatriation tax is based primarily on accumulated foreign earnings and profits that were previously deferred from U.S. income taxes. The Company recorded an estimated amount for the repatriation tax liability net of net operating losses and tax credits as of December 31, 2017. During the three months ended March 31, 2018, the Company recorded a \$2.2 million tax benefit associated with a change in estimate regarding state and local transition tax conformity and inclusion of additional foreign earnings and profits at the reduced repatriation tax rates. Due to the complexity of the repatriation tax statute and computation of historical foreign earnings, the Company is continuing to evaluate this provision of the Act and the application of the relevant U.S. GAAP provisions.

The 2017 Tax Act includes provisions for GILTI, under which taxes on foreign income are imposed in excess of a deemed return on tangible assets of foreign corporations. In general, this income will effectively be taxed at a 10.5% tax rate. As noted above, the GILTI provisions cause a material increase to the Company's effective tax rate for the three months ended March 31, 2018.

The Company's deferred tax assets and liabilities are being evaluated to determine if the deferred tax assets and liabilities should be recognized for the basis differences expected to reverse as a result of GILTI provisions that are effective for the company after the year ending December 31, 2017. Because of the complexity of the new GILTI tax rules, the Company is continuing to evaluate this provision of the Act and the application of the relevant U.S. GAAP provisions. Under U.S. GAAP, the company is allowed to make an accounting policy election of either (i) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"), or (ii) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). Currently, the Company has not elected a method and will only do so after its completion of the analysis of the GILTI provisions. Its election method will depend, in part, on analyzing its global income to determine whether the company expects to have future U.S. inclusions in its taxable income related to GILTI and, if so, the impact that is expected.

16. Subsequent Event

The Company has evaluated subsequent events through May 30, 2018, the date at which the Condensed Consolidated Financial Statements were available to be issued and determined that there are no items to disclose.

Section 7: EX-99.5 (EXHIBIT 99.5)

Exhibit 99.5

PLANTRONICS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On July 2, 2018 ("Closing Date"), Plantronics, Inc. ("Plantronics" or the "Company") acquired all the issued and outstanding common stock of Polycom, Inc. ("Polycom") for a purchase price of approximately \$2.2 billion (the "Acquisition"). The Acquisition was funded with a combination

of cash-on-hand and the financing made available under the credit facility described below and the issuance of shares of Plantronics common stock. The following unaudited pro forma condensed combined balance sheet of Plantronics as of March 31, 2018 and the unaudited pro forma condensed combined statement of income of Plantronics for the year ended March 31, 2018 are based on the historical financial statements of Plantronics and Polycom using the acquisition method of accounting.

The unaudited pro forma condensed combined balance sheet as of March 31, 2018 gives effect to the Acquisition as if it had occurred on March 31, 2018, and includes all adjustments that give effect to events that are directly attributable to the Acquisition and are factually supportable. The unaudited pro forma condensed combined statement of operations for the year ended March 31, 2018 gives effect to the Acquisition as if it had occurred on April 1, 2017, and includes all adjustments that give effect to events that are directly attributable to the Acquisition, are expected to have a continuing impact, and are factually supportable.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only, in accordance with Article 11 of Regulation S-X, and are not intended to represent or to be indicative of the income or financial position that Plantronics would have reported had the Acquisition been completed as of the dates set forth in the unaudited pro forma condensed combined financial statements for a number of reasons, including but not limited to expected cost savings from operating efficiencies, synergies, and the impact of incremental costs incurred in integrating the two companies. The unaudited pro forma condensed combined balance sheet does not purport to represent the future financial position of the Company and the unaudited pro forma condensed combined statement of operations does not purport to represent the future income of the Company. In addition, as permitted by Regulation S-X, the unaudited pro forma condensed combined statement of operations utilizes Polycom's consolidated statement of operations for the year ended December 31, 2017, which differs from the Company's fiscal year end by fewer than 93 days.

The unaudited pro forma condensed combined financial statements reflect management's preliminary estimates of purchase price and the fair values of tangible and intangible assets acquired and liabilities assumed in the Acquisition, with the remaining estimated purchase price recorded as goodwill. Independent valuation specialists have conducted an analysis to assist management of the Company in determining the fair value of the acquired assets and assumed liabilities. The Company's management is responsible for these third-party valuations and appraisals. Since these unaudited pro forma condensed combined financial statements have been prepared based on preliminary estimates of the purchase price and fair values of assets acquired and liabilities assumed, upon completion of the valuation for the Acquisition, and finalization of the purchase price the actual amounts recorded may differ materially from the amounts used in the pro forma condensed combined financial statements.

The historical financial information has been adjusted to give effect to matters that are (i) directly attributable to the Acquisition, (ii) factually supportable and (iii) with respect to the statements of operations, expected to have a continuing impact on the operating results of the combined company. The unaudited pro forma condensed combined statement of operations excludes non-recurring items directly related to the Acquisition.

These unaudited pro forma condensed combined financial statements should be read in conjunction with Plantronics' historical consolidated financial statements and notes thereto contained in Plantronics' Annual Report on Form 10-K for the year ended March 31, 2018, the Current Report on Form 8-K of Plantronics to which these unaudited pro forma condensed combined financial statements are attached as an exhibit and Polycom's historical financial statements and notes thereto for the period ended December 31, 2017 filed as Exhibit 99.2 to the Current Report on Form 8-K of Plantronics to which these unaudited pro forma condensed combined financial statements are attached as an exhibit.

PLANTRONICS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEETAS OF MARCH 31, 2018
(in thousands)

	Plantronics Historical	Polycom Historical	Pro Forma Adjustments	Notes	Plantronics Pro Forma
Assets:					
Current assets:					
Cash and cash equivalents	\$ 390,661	\$ 52,908	\$ 1,244,652	(a)	\$ 7,842
			(842,426)	(b)	
			(837,953)	(c)	
Short-term investments	269,313	—	(50,000)	(c)	219,313
Accounts receivables, net	152,888	115,814			268,702
Inventory, net	68,276	71,973	42,212	(d)	182,461
Other current assets	18,588	35,122	—		53,710
Total current assets	899,726	275,817	(443,515)		732,028
Property, plant, and equipment, net	142,129	58,096	18,485	(h)	218,710
Goodwill and purchased intangibles, net	15,498	501,849	(493,187)	(g)	2,286,638
			975,359	(i)	
			1,287,119	(j)	
Deferred tax and other assets	19,534	80,378	(63,160)	(m)	31,966
			(4,786)	(p)	
Total assets	\$ 1,076,887	\$ 916,140	\$ 1,276,315		\$ 3,269,342
Liabilities:					
Current liabilities:					
Accounts payable	\$ 45,417	\$ 72,749	\$ —		\$ 118,166
Accrued liabilities	77,111	104,792	(16,733)	(c)	192,500
			5,791	(a)	
			13,658	(e)	
			7,881	(k)	
Deferred revenue	2,986	178,220	(103,501)	(l)	77,705
Total current liabilities	125,514	355,761	(92,904)		388,371
Long-term debt, net of issuance costs	492,509	664,296	1,238,861	(a)	1,731,370
			(664,296)	(c)	
Long-term income taxes payable	87,328	9,072	22,294	(m)	118,694
Long-term deferred revenue	—	82,582	(41,861)	(l)	40,721
Deferred tax liability	—	—	122,918	(m)	122,918
Other long-term liabilities	18,566	80,957	(65,832)	(f)	33,691
Total liabilities	723,917	1,192,668	519,180		2,435,765
Stockholders' equity:					
Common stock	816	—	—		816
Additional paid-in capital	876,645	138,394	(138,394)	(n)	1,370,910
			494,265	(o)	
Accumulated other comprehensive income	2,870	222	(222)	(n)	2,870
Retained earnings (Accumulated deficit)	299,066	(415,144)	415,144	(n)	285,408
			(13,658)	(e)	
Total stockholders' equity before treasury stock	1,179,397	(276,528)	757,135		1,660,004
Less: Treasury stock at cost	(826,427)	—	—		(826,427)
Total stockholders' equity (deficit)	352,970	(276,528)	757,135		833,577
Total liabilities and stockholders' equity (deficit)	\$ 1,076,887	\$ 916,140	\$ 1,276,315		\$ 3,269,342

PLANTRONICS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2018
(in thousands, except per share amounts)

	Plantronics Historical 3/31/2018	Polycom Historical 12/31/2017	Pro Forma Adjustments	Notes	Plantronics Pro Forma
Net Revenues	\$ 856,903	\$ 1,142,779	\$ —		\$ 1,999,682
Cost of revenues:	417,788	495,997	109,720	(dd)	1,023,505
Gross profit	439,115	646,782	(109,720)		976,177
Operating expenses:					
Research, development, and engineering	84,193	135,655	—		219,848
Selling, general, and administrative	229,390	406,600	(5,057)	(aa)	655,725
			(56,021)	(bb)	
			(9,884)	(cc)	
			90,697	(dd)	
(Gain) loss, net from litigation settlements	(420)	673	—		253
Restructuring and other related charges (credits)	2,451	9,090	—		11,541
Total operating expenses	315,614	552,018	19,735		887,367
Operating income	123,501	94,764	(129,455)		88,810
Interest expense	(29,297)	(78,677)	11,973	(ee)	(96,001)
Other non-operating income and (expense), net	6,023	(52,749)	54,559	(gg)	7,833
Income (loss) before income taxes	100,227	(36,662)	(62,923)		642
Income tax expense (benefit)	101,096	43,379	(13,214)	(ff)	131,261
Net loss	\$ (869)	\$ (80,041)	\$ (49,709)		\$ (130,619)
Net loss per common unit:					
Basic	\$ (0.03)				\$ (3.38)
Diluted	\$ (0.03)				\$ (3.38)
Weighted average common units outstanding:					
Basic	32,345		6,352		38,697
Diluted	32,345		6,352		38,697

PLANTRONICS, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Description of the Acquisition and Basis of Presentation

The unaudited pro forma condensed combined financial statements have been prepared based on Plantronics' and Polycom's historical financial information, giving effect to the Acquisition and related adjustments described in these notes. In addition, certain items have been combined from Polycom's historical financial statements to align them with Plantronics' financial statement presentation. Polycom prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

Plantronics accounts for business combinations in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 805, *Business Combinations*. The preliminary purchase price for the Acquisition has been allocated to the assets acquired and liabilities assumed based on a preliminary valuation of their respective fair values and may change when the final valuation of certain real property, intangible assets, and acquired working capital is determined.

In addition, in connection with the Acquisition, on July 2, 2018, Plantronics entered into a Credit Agreement (the "Credit Agreement") by and among Plantronics (the "Borrower"), the lenders party thereto (the "Lenders"), and Wells Fargo Bank, National Association ("Wells Fargo") as administrative agent ("Agent").

The Credit Agreement is a credit facility comprised of two components: i) a revolving credit facility with an initial maximum credit available of \$100 million that matures in July 2023 (the "Revolving Credit Facility" and ii) a \$1.275 billion term loan facility due in quarterly principal installments commencing on December 28, 2018, with all remaining outstanding principal due at maturity in July 2025 (the "Term Loan Facility") (collectively the "Credit Facility"). The Company's obligations under the Credit Agreement are currently guaranteed by Polycom.

Borrowings under the Credit Agreement bear interest at a variable rate equal to (i) LIBOR plus a specified margin, or (ii) the base rate (which is the highest of (a) the prime rate publicly announced from time to time by Wells Fargo Bank, National Association, (b) the federal funds rate plus 0.50% or (c) the sum of 1% plus one-month LIBOR) plus a specified margin.

2. Preliminary Purchase Consideration

The total estimated preliminary purchase consideration as of July 2, 2018 is as follows (in thousands):

Preliminary Purchase Consideration	
Base Cash Purchase Price per Stock Purchase Agreement	\$ 1,638,172
Plus: Fair value of equity shares issued	494,265
Plus: Polycom closing cash	72,214
Plus: Adjustments	19,993
Total estimated purchase consideration	\$ 2,224,644

Since these unaudited pro forma condensed combined financial statements have been prepared based on preliminary estimates of the purchase price, upon completion of the valuation for the Acquisition and finalization of the purchase price, the actual amounts recorded may differ materially from the amounts used in the pro forma condensed combined financial statements.

3. Pro Forma Adjustments

Balance Sheet Adjustments

- (a) Reflects the proceeds from the Term Loan Facility of \$1.275 billion net of \$23.9 million of financing costs related to the Term Loan and Revolving Credit Facilities incurred on the Closing Date. These financing costs were deferred as an element of and reduce the net debt balance recognized. Additionally, the Term Loan Facility balance reflects a reduction for an original issue discount of \$6.4 million.
- (b) Reflects cash consideration paid on the Closing Date for the Acquisition, after adjusting for payment of Polycom's pre-existing debt and equity award liabilities as required by the purchase agreement and for estimated adjustments in closing cash and working capital.

- (c) Reflects the cash payment to settle Polycom's pre-existing debt and certain of Polycom's transaction expenses in connection with the acquisition, as required by the purchase agreement.
- (d) Reflects the preliminary fair value of acquired inventory. This increase is not reflected in the unaudited pro forma condensed combined statement of operations as it was determined to not have a continuing impact.
- (e) Reflects accrual of Plantronics' transaction-related expenses that had been incurred through the transaction date but not recorded in historical financial statements.
- (f) Reflects the settlement of Polycom's currency swap arrangement related to Polycom's pre-existing debt in connection with the Acquisition.
- (g) Reflects the adjustment to remove Polycom's historical goodwill.
- (h) Reflects the preliminary fair value adjustments for property, plant, and equipment, which is mainly comprised of personal and real property, and the related pro forma depreciation expense adjustments. Pro forma depreciation expense is calculated based on an average remaining useful life of 2 to 4 years for the acquired assets (in thousands, except useful life):

	Historical Amounts	Fair Value Adjustment	Fair Value	Average Remaining Useful Life (years)	Pro Forma Depreciation Expense
Computer equipment and software	\$ 31,753	\$ 391	\$ 32,144	2.1	\$ 15,042
Equipment, furniture and fixtures	11,445	7,151	18,596	3.4	5,455
Tooling equipment	2,181	4,113	6,294	3.0	2,098
Leasehold improvements	12,717	6,830	19,547	4.0	4,887
Total	\$ 58,096	\$ 18,485	\$ 76,581		\$ 27,482
Less: Polycom's historical depreciation expense					<u>\$ 37,366</u>
Decrease to pro forma depreciation expense					<u>\$ (9,884)</u>

- (i) Reflects the adjustment to record the fair value of identifiable intangible assets and related amortization expense adjustments, as follows (in thousands, except useful life):

	Fair Value	Average Remaining Useful Life (years)	Pro Forma Amortization Expense
Existing Technology	\$ 537,200	4.9	\$ 109,720
In-process Technology	58,000	—	—
Customer Relationships	245,100	5.1	48,267
Backlog	27,900	1.0	27,900
Trade Name / Trademarks	115,600	6.0	19,267
Favorable Leases	3,108	3.7	850
(Unfavorable) Leases	(2,887)	3.1	(923)
Total	\$ 984,021		\$ 205,081
Less: Polycom's historical intangible assets and amortization expense	\$ 8,662		\$ 4,664
Increase to pro forma intangibles and amortization expense	\$ 975,359		\$ 200,417

- (j) Reflects the recognition of goodwill arising from the Acquisition based upon the Company's provisional purchase price allocation. The goodwill is primarily attributable to the assembled workforce of Polycom and synergies and economies of scale expected from combining the operations of Polycom and Plantronics (balance in thousands). Intangible assets arising on acquisition are not expected to be deductible for income taxes.

Total consideration to be allocated	\$ 2,224,644
Less: Estimated fair value of assets acquired	
Current assets	(318,029)
Depreciable fixed assets	(76,581)
Intangible Assets	(984,021)
Other assets	(12,432)
Plus: Estimated fair value of assumed liabilities	
Current liabilities	243,408
Deferred tax liability	122,918
Other long-term liabilities	87,212
Goodwill	\$1,287,119

Since these unaudited pro forma condensed combined financial statements have been prepared based on preliminary estimates of the purchase price and fair values of assets acquired and liabilities assumed, upon completion of the valuation for the Acquisition and finalization of the purchase price, the actual amounts recorded may differ materially from the amounts used in the pro forma condensed combined financial statements.

- (k) Reflects the preliminary estimated fair value of the pre-existing Polycom management Long Term Incentive Plan ("Polycom LTIP"), which became vested and payable upon closing of the acquisition.
- (l) Reflects the adjustment to reflect the fair value of deferred revenue. This decrease is not reflected in the unaudited pro forma condensed combined statement of operations as it was determined to not have a continuing impact.
- (m) Reflects the tax impact of the pro forma adjustments based on an estimated blended statutory rate and adjustment for uncertain tax positions. The income tax expense/benefit is based on management's estimate of the blended applicable statutory tax rates for the jurisdictions associated with the respective pro forma adjustments. Because the tax rates used for these pro forma financial statements are an estimate, the blended rate will likely vary from the actual effective tax rate in periods subsequent

to the Acquisition. The pro forma tax adjustments are based on the tax law in effect during the period for which the unaudited pro forma combined statements of income is being presented and therefore contemplates the effects of the 2017 Tax Act. As the full determination of the accounting impacts of the 2017 Tax Act has not yet been completed the provisional amounts are based on management's reasonable estimates. The Acquisition is a non-taxable transaction and therefore the amortization of Intangible assets acquired is not deductible for tax.

- (n) Reflects the elimination of Polycom's historical stockholders' equity balances.
- (o) Reflects the fair value of equity consideration for the Acquisition (shares of Plantronics common stock).
- (p) Reflects elimination of costs capitalized for internally-developed software. As of the Acquisition, the internally-developed software is part of the Existing technology intangible asset valuation. Please refer to adjustment (i).

Statement of Operations

- (aa) Reflects elimination of Plantronics' and Polycom's transaction-related expenses that are included within historical general and administrative expense.
- (bb) Reflects elimination of Polycom's historical amortization of goodwill to align with SEC public registrant's accounting principles. As a private company prior to the Acquisition, Polycom has elected to amortize goodwill as part of its accounting policy. Please refer to Exhibit 99.2 for additional information.
- (cc) Reflects the depreciation expense adjustments based on preliminary fair value estimates for property, plant, and equipment. Please refer to adjustment (h)
- (dd) Reflects the amortization expense adjustments based on preliminary fair value estimates for acquired intangibles.
- (ee) Reflects pro forma increased interest expense for the year ended March 31, 2018, based upon: (i) interest expense on the Credit Facility, (ii) amortization of deferred financing costs of \$30.3 million based on an estimated amortization period of 84 months and (iii) the elimination of Polycom's historical interest expense for the year ended March 31, 2018 as Polycom's pre-existing debt was settled in connection with the Acquisition. Refer to the table below (in thousands):

	Year Ended March 31, 2018
Interest on term loan facility borrowing	\$ 62,932
Amortization of deferred financing costs and discounts from the Credit Facility	3,772
Total interest expense	66,704
Less:	
Historical Polycom interest expense	78,677
Net pro forma adjustment to interest expense	\$ 11,973
Impact of a 1/8% increase in interest rate	\$ 1,573
Impact of a 1/8% decrease in interest rate	\$ (1,573)

- (ff) Reflects the income tax expense/benefit of the pro forma adjustments based on management's estimate of the blended applicable statutory tax rates for the jurisdictions associated with the respective pro forma adjustments. Because the tax rates used for these pro forma financial statements are an estimate, the blended rate will likely vary from the actual effective tax rate in periods subsequent to the Acquisition. The pro forma tax adjustments are based on the tax law in effect during the period for which the unaudited pro forma combined statements of income are being presented and therefore contemplates the effects of the 2017 Tax Act. As the full determination of the accounting impacts of the 2017 Tax Act has not yet been completed the provisional amounts are based on management's reasonable estimates.
- (gg) Reflects the elimination of Polycom's historical loss recognized on its cross-currency swap, settled in connection with the acquisition.