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Polycom Inc. Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Yes, thank you. [Operator Instruction]. Our first question comes from the line of John Anthony from Cowen & Company. Please proceed with your question.

John Anthony - Cowen & Company

Good afternoon, guys. Couple of question, but before we get started did you, I apologize that you missed it, but did you call how much revenue generated from RPX in third quarter?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes. We did, we said around \$2 million.

John Anthony - Cowen & Company

Okay. Could you give us a sense going back and looking at the slight short fall Q3 relative to guidance in your historical trend kind of, bidding guidance, can you kind of, break down what it was exactly that how did you show, how did you missed the target and how of that was RPX slipping into the fourth quarter how of that was SpectraLink and kind a go through with the drivers over there?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Well, there was couple of things going on, certainly as we've noted in the U.S. market the integration of SpectraLink there was a distraction for the sales management team. They are essentially complete with that now. I'm very excited they got that done. And we can move on to looking outward as opposed to looking inward and getting all that work done. Secondly some of that revenue, yes it didn't moved forward into the Q4 timeframe, it rolled into the deferred revenue and backlog, but not all of it. I think the, we didn't do what we wanted to do. We didn't do what we thought we could do. And what we've done is, we are refocusing we are really making sure we've got all the things done inside of the sales and they go to market execution engine that we need to get done. And we're going to get this thing back on track and we are going to get back on track ASAP. So I think the SpectraLink thing was a distraction. It bogged down the management team. They need to become they've got that under control and it's really complete and again onto the rest of the business, so hopefully that answers for you, I'm not sure if you're, looking for different color, but that's effectively where I think we are working.

John Anthony - Cowen & Company

That was very U.S. focus, right I mean?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I think, so I mean, we were doing where we didn't have those issues people would focus on getting your outbound marketing and sales efforts done, getting their pipelines complete closing business just

doing the things that they, we know they need to do to be able to make the number ramp that we're expecting.

John Anthony - Cowen & Company

Okay. And then two other quick questions if I could be on a gross margin. How much of that was mix versus promotional and then lastly if I look at your guidance, I can understand the reason why you'd want to be conservative but historically you had strongest sequential growth in the December quarter in the past two years and given the product, the new product introductions, HDX, RPX etcetera. why wouldn't the numbers be stronger in the December quarter?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I think you should tell this one.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Yes, so the first one is gross margins, right.

John Anthony - Cowen & Company

Yes.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Yes, so the gross margin was mix related. It was primarily due to a mix of voice-over-IP handsets which we had a good success on that product in the third quarter. As you know those products typically run around 40%, they are actually here in this quarter but in fact, that was a primary driver for that ASP, general silicon video ASPs which you can see by looking at our video revenues against units were actually quite healthy. So was that the primary driver there was around the shift on next for voice-over-IP handset. We guided for gross margin staying about stable, why, because there was a small voice-over-IP handset activity and, but there is just no reason to set an expectation. Apart from that, at this point but we of course are guiding with our revenue growth, the operating margins set out the?but rather sizable improvement that we guided till today. As far as, why guided the 5% to 6%, if you look at, yes, you are right. I mean, last year, I know we did, I think we were 7.7% sequential but I think there are two things, one is last year if I am not mistaken, we guided 3% to 4% and we ended up at the 7.7 and not at its relevant but it just mid stream point of the history. I think also we just came also having a slight miss and if there clearly would not make any sense for us to be in position where, without just make sure that we accept things in a way that we can do the normal Polycom performance. So there was a couple other reasons that hopefully and logical that we would want to accept the guidance where we did and we're obviously very excited about the industry both on the video sides, over the voice side as I Bob clearly, noted earlier and net, net as far our guidance ended up.

John Anthony - Cowen & Company

Appreciate it. Thanks very much.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Thanks John.

Operator

Our next question comes from Jason Ader from Thomas and Partners. Please proceed with your question.

Jason Ader - Thomas Weisel Partners

Thanks. Hi, guys.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Hi, Jason.

Jason Ader - Thomas Weisel Partners

As far as trying to reconcile on this. North America obviously very weak, especially on video, camera, you really kind a beat your tail, in another way to say it and you are giving it looks me like and I wouldn't call a conservative guidance. I'd actually call that pretty strong guidance given the fact that you just had a shortfall. The normal seems like you are saying, correct me if I am wrong. No issues that you are saying that the Q3 issues were really odd timing related around some other new products and as these new products kind of get released sort of the sales execution sort of take a care of itself because now guys have new products and so, and we have end of the year seasonality. Is that kind of where you would be thinking about the guidance and overall what happened in Q3 in terms of the shortfall? Is this primarily what you would consider a timing around new products?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

I think that the new products, look we do long-term road maps with our most important customers if I get wide range of customers that clearly give out the 4000 because we'd announced it. The most of the customers knew about 8000 and then there was some hiring, there were some management hiring done in the North American theater for the sales efforts and the marketing efforts and so, yeah, I think that's behind us and we are looking at getting we are clearly are through the product issues they are out there, those products are out. They were introduced with product community group and I think people are really growing about. I think they are hot products, beside about our sales force and we'd made some great additions we have more additions to make through that sales force and when we get out they'll start executing.

Jason Ader - Thomas Weisel Partners

But do you think it was more, I guess do you think it was more that the people were waiting on a new products or do you think it was that the sales and marketing machine just wasn't kind of operating up to par?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Well, I mean, it's look, I think it was an execution issue on our part and I think we are really clear. There is lot of clarity about what's expected, there's a lot of clarity, there is no more muddiness about the new products and when they are going to come out, do I want to show, do I want to sell somebody this versus that, it's all clear, it's out there. There is that include effort to get everybody trained and know about the new products and so I don't know what, it shades the clay I am not sure whether how much of it was execution because of internal issues around getting the SpectraLink things resolved and how much of it was the products anticipation but it's over.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

You know we are not SpectraLink.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

With SpectraLink stuff.

Jason Ader - Thomas Weisel Partners

What does SpectraLink have to do with, what the SpectraLink has to do with the video side?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Same management team, right, I mean management team cheers up into a regional or theater based scene.

Jason Ader - Thomas Weisel Partners

Okay.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

And you know, when you got issues, everybody dives in. I mean it's all important right.

Jason Ader - Thomas Weisel Partners

Yes. When your management is constraint and you know like there's that management, we'd like to see that there was some growth in that area.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Yes.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

And but the major work has been done as Bob noted.

Jason Ader - Thomas Weisel Partners

Okay. Now regarding the second question, second question is Mike looks like you are pretty controlled on your OpEx this quarter, right I guess some of the areas that you were able to reduce OpEx level to the last quarter, what kind of things there?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Well, the one thing they were not trying to meet is some of sales coverage improvement about textaphone, that has been a priority, that was a priority it will be a priority, because there's an awful lot of opportunity in this slightly based video and general collaboration environment. We're making those coverage investment, because they yield and it yield quickly. So we are definitely we have been doing that, we'll continue to do that as far as the activities, we did have some good synergy work associated with SpectraLink in G&A in service function. There were not customers facing, so we've had a lot of good success there. We had some good success and frankly could just could take G&A management. We take those very responsibly and so we manage carefully and we are able to do. You saw and they came down. I think it's percent of revenue sequentially, that's pretty G&A came down from both 6.1%, 5.2%, so we were taking that pretty aggressively. The one that we define to grow with the revenues a bit obviously overtime here is the sales marketing line because there is so much to capture, but our non-G&A we are looking, I mean we've made forward investment from those two areas. And we're looking to maintain that, not that flat but of course through it.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

And just the point of working well, the system inside the company is working well. We've got the SpectraLink products. We've seen the first articles come out factory, we have good quality, good process management the products are coming through looking clean. The new software, I mean we introduce a lot of new software this quarter with SE 200 which is our powerful management solution, they are mixed having new code they all come to clean they are? hitting customer, they've gone to better in great shape, a lot of things are working on the execution side. And those were not gloriously clearly, but we've gotten through those, we've been able to execute on good return on our inventory asset last year. We've gotten SpectraLink into the forest factory and it's running well. We got the new products running through the factories, that's a whole so new and all of the integration and backward compatibility testing and interrupt testing, which we've got the most comprehensive labs in the industry to make sure when our products comes out to interrupt with the widest range of products. So for customers protection for making sure our customers are held first, I think we are in very, very good shape in terms of the quality of this products coming out that people can feel comfortable with this products that they are a number one quality and inerrability.

Jason Ader - Thomas Weisel Partners

I think the product seem very sharp, I guess my last question would just be, you guys have been, I have been following company for a long time and the last couple of years you are making major investment since sales and marketing. That's been growing every quarter, since you like to spend a lot of investment over the last couple of years and that was one of the reason you said that operating

margin when I can hit through the targets right away because you are making so many investments in sales and marketing.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Right.

Jason Ader - Thomas Weisel Partners

And I just see the result for last couple of quarters and your main competitors is just really beating you on the market. I'm just trying to figure out why don't you get the return on those sales and marketing investments?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

As a great product.

Jason Ader - Thomas Weisel Partners

Because you do have good products.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

We do have great products. We've got great portfolio of products. We have some we did a pretty big change in our go to market strategy this year. I feel very comfortable that it is taken home, that people are in place that they are building a pipeline, they are establishing customer relationship and I am expecting return from that starting this quarter.

Jason Ader - Thomas Weisel Partners

Okay, thank you.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Thank you, Jason.

Operator

Our next question comes from line of Troy Jensen from Piper Jaffray. Please proceed with your question.

Troy Jensen - Piper Jaffray

Good afternoon, gentleman.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Hi, Troy.

Troy Jensen - Piper Jaffray

Hi, Michael, could you may be give us some insight about the past couple of quarters, what roughly, what's your HD revenues were in the quarter?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes, we have a nice step up in HD revenues this quarter. I don't have the exact percentage off the top of my head but it was a very strong sequential step with the 9000 family and this quarter of course, riding the 8000 family.

Troy Jensen - Piper Jaffray

Yes, 4000 new category process for us, so that's really exciting.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

That's above big opportunity.

Troy Jensen - Piper Jaffray

Following up on Jason comments too about the competition and you guys are doing better, do you think that may be the HD products currently kind of above kind of, sweet spot in spending for where your competitors spending at their HD.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I think the 9000 top at a line and that is what we have was the top of the line, integrated product that was built with all the IO that you need for hiring room and 8000 mainstream products, so I targeted right in the sweet spot so I don't know. I don't want to make excuses for our execution in Q3. We had a good product line now and we got out sales issues respectively behind us to stand and deliver.

Troy Jensen - Piper Jaffray

Alright, Michael, one if you, I know it's Bob said vertical and they call North America and it did incurred in Q3?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

In the third, I mean, we did our expectations but it appears so we might not have done as far as market. So, I mean that is the short answer. So we did hit our expectations but that is not good enough.

Troy Jensen - Piper Jaffray

And then Bob you called out the \$1 billion telepresence market size in 2011?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Yes

Troy Jensen - Piper Jaffray

Do you endorse that number?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

I think that markets and I am I don't have a crystal ball but there is a lot of interest in blending the telepresence with the desktop which we do elegantly blending it with room systems. I think it's a continuation. it is a phenomenal technology and I say I was in the TPX room with some of customers looking at it. It is just so outstanding of a product so I think, there is a lot of attraction for I'd expect to see almost every executive sit having a telepresence area and then we'd expect to have a natural movement to medium rooms and small rooms and desktop all using HD and we expect to get a big portion of that because our HD clearly if you look the Wainhouse report that just came out is superiors that products in the industry.

Troy Jensen - Piper Jaffray

All right. In that case.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Thanks Troy. And just to the clarification was to look it up we ended up with a sequential growth in our HDX9000 product line little over 40% on sequential growth of that product line know it comprises a over asses of the video revenue.

Robert C. Hagerty - Chairman, Chief Executive Officer and President

Again this one product it's the high-end segment so we are.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

And now we have 8000, 4000.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

The 8000 and that's line of products in 8000 which is rate in the sweet spot of the market.

Troy Jensen - Piper Jaffray

Mike, as have 40% revenue growth.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes, sir.

Troy Jensen - Piper Jaffray

Okay. Good job.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Thank you.

Operator

Our next question comes from the line of Elliot Gold with TeleSpan Publishing. Please proceed with your question.

Elliot Gold - TeleSpan Publishing

Thank you. Bob you've actually you made business like debt let me just quantify and ask you the question I look back at your unit shipments sequentially for Q3 for the last three years and this year FY07 and the last year FY06 your unit shipments group system fell both times, they even fell in the desktop although they were up in '05, they fell 25% group this year, 29% in previous year of FY06, Q3 over Q2? And I heard you, your rational Avaya was down the other comment on why that was happen in Q3 and prior to that you've begin with business with, I would have expected to zoom with the introduction of HD and telepresence that tends to driving a sales.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Well, remember we did only the 9000 series out there in RPX changing from the top of the model and moving our models down into the mainstream, so we are at the peak of the market or the high-end market we are moving our product line down. So I think that's part of it and summer quarter are always at least for us are always difficult quarters with our customer base because there's lot of vacation time in Europe although I will say Europe did very, very well and we see vacation time in Asia and North America as well. So I think that's primarily? primary drag on North America, I don't know but those unit numbers I don't think we are going sequentially down.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes. We did say.

Elliot Gold - TeleSpan Publishing

In FY '06 as well.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I mean, yes just to hear in this quarter. And then in '06 we were a little bit.

Elliot Gold - TeleSpan Publishing

That's 25%?

Robert C. Hagerty - Chairman, CEO and President

So, we do sequentially have a you know, yes, I mean Q3 is always a slower quarter for us. We do have that vacation thing that seen to flexes as we suffer pretty heavily in the enterprise sector.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

That was so gorgeous it sounds as much as far as evidence.

Operator

Our next question comes from the line of Scott Sutherland of Lehman Brothers. Please proceed with your question.

Scott Sutherland - Lehman Brothers

Great, thanks good afternoon.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Hi, Scott.

Scott Sutherland - Lehman Brothers

I want to talk about you have announced the whole set of new products. Can you kind of, quantify the amount you express through not here end of Q3 going in Q4 versus maybe the last couple of years and the impact that you should have?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Also I think what significant about this versus the last couple of years. And if you look at the last introduction we did which was the access line, which is several years ago. We more or less came in the middle and I migrate up and down. And this product line we elected to come in from the top and come down from the top, so in the last three years, we have, you know, we've introduce HDX9000 series in the video space that is a high-end that's an integrator room. It's got five camera input, multiple monitor input, so it's a big piece of equipment that's very sophisticated it is the high-end of the line, it is price at a premium to what the mainstream is priced at. And what this introduction represents is a major shift into the mainstream market pricing. So, 8000 and 4000, well, the 8000 in particular is line-up products that are remained in right of the sweet spot of the market. And they are HD, they out perform, we believe everyone else in the market, so in terms of values per performance, these are the best on the market. They make real HD picture, they do real continuous presence and embedment the system, they are? they got the best camera in the industry.

So they are right into the sweet spot in terms, of 4000, this space has being covered both in the size of the monitor that there's been a high quality picture although not really seen in most cases, this products comes in with full HD all the same HD quality that you get with the 9000 and the 8000 series, but for the execute desktop. I believe the best integration to the PC for the executive to blind that smoothly and easily in the best executive desktop system is every being produce. So, again that's more or less a new segment for us that 8000 is moving to the sweet spot. So, I think this is a material change in our product line-up in the way in the video space. The Microsoft not only voice out, Microsoft goes CS? 2007. It's a major move by an important technology partner in Microsoft. And we've got a whole line of phones, we have owns? materially some own one short for the fourth quarter [ph]. So, also a major, new additional revenue sector for us. All happening in this fourth quarter this is a pretty big announcement for us.

Scott Sutherland - Lehman Brothers

Okay. I'm following-up on a previous question to deal little, deeper Italic chamber did very well in the U.S. Federal Market, in federal legislation and I think it's been a little deeper maybe just over a confusion the biggest nothing differently in U.S. Federal Europe and Asia show they thought them very strong growth and looks like if you guys solve? little bit decline in Asia.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Well, we sort of, seasonal decline, Asia was more or less probably, what we thought they be and in certain we had a good quarter in Federal. Obviously, they had a very good quarter, I'm only talking about the competitors, but they did have a good quarter and it just shows you how great the market is and how we need to get our quarter margin running as a faster club, our sales and marketing agent running at a faster club.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

No, it sounds like you had a follow on.

Scott Sutherland - Lehman Brothers

Yes, I had one last follow-on, you know again you know you're pretty announcing in this the loan of your guidance by 3 million so just a very slight there and you actually would be announced guidance range. For first time looks they got a big short term backlog or deferred revenue growth, backlog again it goes for the first three quarters. I didn't think you are very pleased with couple of days in the quarter where there are still execution you notify not disclosure, certainly what happened? in the third revenue to get a few million more.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes. It's certainly nice to see that 6% deferred growth and backlog growth. You are right. That's obviously good forward indicator and we're happy to see it. Within the month of September, there was some shaping issues or some of the orders coming in towards the end so also the linearity was solid. It was 45% last month of the quarter. It could have been better? within the month of September, it could have been better. At the end of the day, I think it's very important with all this new product activity and the new relationships or the augmented relationship with Microsoft and new relationship coming at the tail end of this quarter everything else doing else we're going to just, we're going to fix the fundamentals to wrapping up the SpectraLink situation, so it's just really positioned, well for Q4 and I don't think that's a good thing.

Scott Sutherland - Lehman Brothers

I think I have a short follow-up. Especially, within your channel last quarter then what is in this quarter?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I'm sorry.

Scott Sutherland - Lehman Brothers

Is the specially product you have you channel last quarter you only thought trying to really push at this quarter?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

That's going to be growing shifts the current channel, the SpectraLink had are still quite accurate. We are having success with our channel network. We are beginning to see some of the synergies we're actually not pleased I would say with Q3 but at least the factor of Q3 and what can and the team have done with it's sale force and doing a fair amount of heavy lifting around that, so you would see that just the gradual benefit already in Q3, Q4 and in the way.

Scott Sutherland - Lehman Brothers

Okay. Great. Thanks guys.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Thank you.

Operator

Our next question comes from a line of Tavis Mccourt of Morgan, Keegan. Please proceed with your question.

Tavis Mccourt - Morgan, Keegan & Company, Inc.

Hi guys. Couple ones first follow up on SpectraLink question what point do you expect to get the inability between SpectraLink tends and your traditional IP desktop vendors? So that's under.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

There's some noise. Do you trying to say some or that's just noise. Okay. So the they already started that effort they are working very hard to get that done, there's quote being written as mistake and there is a lot R&D activity and the relationships are already taking roadmaps and coping toward. We mentioned in the call here that 3Com is a natural place where we picked that business up primarily through the wireline side and we are looking to get to move that wireline but it does of course and towards working and that well underway and those activities started at the end of second quarter and we working pretty nicely.

Tavis Mccourt - Morgan, Keegan & Company, Inc.

And so upward that relate type in terms been able to market that audio channel?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

We are going to expect some in that time and then it's going to rollout overtime as we thought we have to go through developing it and we have go through the certification cycle but it's all activity started again.

Tavis Mccourt - Morgan, Keegan & Company, Inc.

And 3Com release are they just going to be selling your handset side-by-side with there so they made a more strategic decision make it out of handset business all together and just resell yours.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Well, I think it primarily focus on chip and they said they have some legacy business and they would probably continue sell their platform.

Tavis Mccourt - Morgan, Keegan & Company, Inc.

I think these activities the product in that?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Yes. It's moving I think there are moving everybody moving to shift where the shift offer and just migrate over that one.

Tavis Mccourt - Morgan, Keegan & Company, Inc.

And in terms of the 8000 series, probably don't want talk about pricing too much but in general what kind of premium should we expect on we saw on a retail price of the 8000 versus the similar with VSX?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Okay. So, it's a rack-mounted we are starting in this tarnish price point and so maybe its \$2 or \$3,000 uplift and what you'd expect if you're going to buying standard video conferencing system.

Tavis Mccourt - Morgan, Keegan & Company, Inc.

Right. And then that particular vendor wants more time on the go to market through issues. You mentioned you may go to market change this year, but as long as make us understand that, if there is no change you go to market strategy, basically you change some people out and wanted to confirm whether there was any change in kind of, commission structure or anything just rubbed it like that?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

You know, no we not particularly? we did focus people on working with the strategic partners and so we redirected people into direct tough and we could add people into direct touch.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Yes. An early in the year around global account management, some of the stratification because, what we're finding is now that the IP based network solution, customers expect a very high tech model albeit fulfilled through channel, but, that was early in the year and that's quite frustrating as well.

Tavis Mccourt - Morgan, Keegan & Company

Got you. And then the final question, in terms of the general addition to the sales force. I now you're doing rather aggressively in Europe is that for the North America market as well?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

At all periods.

Tavis Mccourt - Morgan, Keegan & Company

Great. Thanks a lot.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Thanks, Tavis.

Operator

Our next question comes from the line of Manuel Recarey of Kaufman Brothers. Please proceed with your question.

Manuel Recarey - Kaufman Brothers

Thank you. We certainly have been kind of video end point competitive situation we have seen that growth up pretty well. So, I kind of move on to the network side of the video business. You may competitive they had we are down sequentially whereas you are up sequentially so it's fair to assume that the RMX is going to have the A and impact there and for me look at this is kind of and inflection point where the network system that this is going to growth is going to accelerate there and should have a positive impact as well.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I think, there is no access in product it's doing but there's a variety of contributor to the network system business, you know there is the various video solutions around RMX and MGC. And then there is then there's the voice bridging solutions that go I believe entirely into the Service Provider area. So that was a good result as far as inflection going forward, Bob, you want to continue.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

RMX is a phenomenal platform it is a right architecture. It gives you not only the IP video but it's integrated ISDN video and it has integrated voice. And it's scalable, depending on how you're using it to give you the optimal usage. A lot of customers are looking to buy our product like our HDX, in fact our HDX series not only because they want to run at the high band rates that gives you full HD, but the fact that if you run it at the lower boundaries maybe a traditional bandwidth rates like 384, you get a much better picture, materially better picture so that's land that flexibility and that scalability is really resonating with customers and you know quite frankly there is a lot other offers out there. Some of them do HD. Most of them don't do HD, but nobody has the scalability integration and the service provider's class of approach to read all the interoperability that Polycom brings. So, I think that product is a winner and I think it's going to carry us real far in the future.

Manuel Recarey - Kaufman Brothers

Okay. Thanks.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Okay, thanks Manuel.

Operator

Our next questions comes from Greg McArthur of Viewpoint 2000. Please proceed with your question.

Greg McArthur - Viewpoint 2000

Hi, Mike and Bob.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Hey, Greg, how are you?

Greg McArthur - Viewpoint 2000

Just to comment, I don't think this numbers are too bad and I think this is a little prompt can you probably kind of, but a couple of questions. Can you refresh me on the backlog?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Yes. The total backlog that we had was 16.5 and the third was 79.9, both were up 6% sequentially, backlog of 30 year-over-year and that deferred up 33% year-over-year.

Greg McArthur - Viewpoint 2000

Can you elaborate on this business unit collaboration, in other words, can you go in more detail the way ahead on this? in this particular unit?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Obviously, both are platforms or collaborative platforms for voice products, useful collaboration. I think you are referring to video. Our video solution is a complete solution. We are looking to capitalize and what we think is a major change and a fundamental change in workflow inside of large enterprises, small enterprises and public sector and the reason for that, it will be able to deliver, we are delivering, today we can deliver HD and multipoint and continuous presence, try to recording and streaming to be able to deliver the kind of things that organizations need to communicate when they are at a distance and this is the complete solution. This had the management capabilities scalable into the thousands. This has the recording capability archiving so you can record this [inaudible] back later with the content and the people on HD and we have a full line of HD solutions from the executive desktop to the desktop, all the way up through to full immersive telepresence and we're the only people that could scale from 4 to 28 in a telepresence room as a standard of the shop offering so we are really excited and we really believe that collaboration in the future means video, collaboration in the future means voice and collaboration means content. All integrated together all in HD and we've got it today. So we are pretty excited about where this is going.

Greg McArthur - Viewpoint 2000

And you are right on because you get big boys moving in with IBM, Cisco, Avaya, etcetera, etcetera, so that's can be a huge mass selection?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Absolutely. Lot of these guys are partner.

Greg McArthur - Viewpoint 2000

Yes. And you know second question Bob, if you would summarize what's going to be the biggest driver in 2008 for Polycom?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Well, you know.

Greg McArthur - Viewpoint 2000

According emerging incidence?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

You know, it's kind a all of the above and I tell you HD video is doing extraordinary well, Network service coming into it, Network products is coming into there own, IP just tremendous acceptance in IP voice. You know, I think Microsoft got a tremendous offer is coming up but so to the other folks into open source that IP PVX so we have IP conference phone, we have the IP handset with full lines even the IP handsets we did a little booth at the pug meeting where you walk in this phone booth and you can toggle this the regular telephone the product mix the handset phones IP from regular band to wide band it's phenomenal and this thing is really taking whole, we are getting a lot attraction in the

IP community to look at our platform not only does happen [audio gap] potential there with that build on the sales force that we are doing, there is green initiative where in some countries and all right mandates around that and there certain momentum in general around the green initiative, cost itself all these other issues so there is a lot of strategic drivers the company's have that are telepresence and collaboration of course in general and that some of exciting market for us.

Greg McArthur - Viewpoint 2000

So you guys are, excuse me, pretty excited going in the four quarter in particular run on 2008?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Well, absolutely.

Greg McArthur - Viewpoint 2000

Absolutely. Yeah. I mean, I think your ready, I think it's you know particularly require so I let you go.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

All right. Thank you, guys.

Greg McArthur - Viewpoint 2000

Great. Good job I don't think it is disappointment, so that's?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Yes. We are little disappointed.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

We are disappointed. This is not a good neutral solution.

Greg McArthur - Viewpoint 2000

Yes.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

This is not really clear. This is not good enough execution. We will.

Greg McArthur - Viewpoint 2000

Okay. Then. Okay. That's a constant in home right.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Right.

Greg McArthur - Viewpoint 2000

All right. Good work. Thanks guys.

Operator

Our next question comes from the line of Scott Sutherland of Lehman Brothers. Please proceed with your question.

Scott Sutherland - Lehman Brothers

Well. Thanks for the opportunities guys but all of my questions have been answered.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Thanks very much.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Thank you, Scott.

Scott Sutherland - Lehman Brothers

Okay. Thanks. Appreciated.

Operator

[Operator Instructions] Our next question comes from the line of Sanjiv Wadhvani of Stifel Nicolaus. Please proceed with your question.

Sanjiv Wadhvani - Stifel Nicolaus & Company

Quick clarification in two questions, so HD you said Mike it was fifth of your video revenue?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

More than a fifth of our video revenue stream and revenue stream grew well over 40% sequentially.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Got it, that's a fifth of that \$140 million number essentially. Not more than that fifth, as I got it right okay.

Sanjiv Wadhvani - Stifel Nicolaus & Company

More than a fifth of that? Yes, sir now it? I mean that was quite successful but not enough we want to see more, but it was a huge growth.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

And it's a big shift in the HD and we're really excited about having the 4000, which is the executive desktop place we've playing only in standard definition. So really exiting to get a high definition and business definition if you want quality product out there and the 8000 which goes right at the sweet spot of the market, so very, very exciting that's not to say we are enhancing our BXR standard definition stuff a lots of great new code coming out on that to make it better, higher quality picture and meeting with of them, leave it absolutely living investment, but I'm excited about the HD that's? those are hot products and best in the industry.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

And it could excellent amount there, right?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes. It's a lot of product can be update.

Sanjiv Wadhvani - Stifel Nicolaus & Company

And on SpectraLink Mike, I know although you haven't given specific guidance on various areas, but I mean should we expect SpectraLink grow a decent mind with the company for December or you're expecting better growth any color there?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

We don't break it out, but I will tell you Sanjiv as we know and we guided to announce we're back in at the beginning of the year. We anticipate just to be a fast growth market, the market it would be analyst and 32% in company an annual growth market. Obviously, as we talked about when we announced the deal that gives you initial integration year and doubling the backlog appeared in Q1, when we both? I think it was 8.4 million backlog, so all that's true, now moving towards here the end of this year and then of course, yes we expect cash to the market I mean there is never a time when we are not going at market that we're going to find that acceptable. So, it's something that we execute on that, we already beginning to see some sequential this quarter which were happy about and yes, we should expect to see some nice growth in that product line and not many quarter how it's going to go, because we don't break that out by product line, but, yes, that should be one of the faster growth opportunities quite frankly.

Sanjiv Wadhvani - Stifel Nicolaus & Company

Got it. And the last question, Microsoft? I mean what should we be expecting through the course of '08 I know you have a bunch of new phone out there. But any sort of color as to? how you expect the relationship to progress through '08.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

I think the relationships in good shape. We have a joint roadmap. We are working and continuing to enhance, that will progress through '08 and I think some of that products actually went out to '09. And there is a regular and routine roadmap reviews where we jointly plan what things are needed for both companies to be to execute net marketplace and I like what I see on the product roadmap. It is very, very good, and the things they are doing are extremely, well received and their customer base, and I think, it's going to be a great, great relationship.

Sanjiv Wadhvani - Stifel Nicolaus & Company

I guess the one follow-up to that Microsoft talked about eventually sort of cut to cut [ph] desktop fallen going away and everything moving to a PC soft cline and I am just curious to see your thoughts from that and how do you sort of you can tell about the relationship should we have to do for them right now.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Well, we have a number of platforms at work with that. Certainly, if you have a desktop solution that is a soft client, you can walk away from it unless you want to carry your laptop along in the road and there is a wireless products in our offer that have come out with this initial offer and there is more coming so that you can lift it up by the handset and browse the world on the wireless network while you are connected through your PC. There are a number of innovations coming. We also have obviously the communicator, the small product that gives you the high definition, high raised voice that you want out of your PC when you are doing a voice communication, I think it is a blend, I think the reports of the demise of the telephone are well overplayed. I think phones have a long, long life and both, certainly soft as growing but hard phones will be there for a while. I remember that's tied in very nicely with the architecture. They have been an excellent partner in that regard and we were closely Microsoft after the development of this product line and we will continue to and there are? from design standpoint, kind of a product requirements documenting all the way through the market, the close relationship, lot of opportunity together and that will be both soft and hard phone applications. They are right about that and they will also obviously be a wire line opportunities and those kinds of things and that makes us a perfect partner.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

There are lots of devices that can be hooked up to the? if you want to fit it now in the PC in the Microsoft computer limitation, an application will be driven through those and I think there is, you only have to think about the device just as you think of a traditional telephone because that is evolving as well and I think the nice thing about our relationship is we have a good road map with them and I think we can really? our goals continue to add value added to that platform as it moves forward.

Sanjiv Wadhvani - Stifel Nicolaus & Company

Got it. Thanks so much.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Thank you, Sanjiv.

Operator

Our next question comes from Bill Choi of Jefferies. Please proceed with your questions.

Bill Choi - Jefferies & Company

Thanks and hey guys thanks for doing that video broadcast just actually quite neat. Appreciate that doing.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Okay.

Bill Choi - Jefferies & Company

I do have some of question, I know you know just try to going back on the some few message had couple of questions around one was looking at the retention agreement you sign with 68 and in general did you feel that any part missing from integration of video and the network business and of course as far as execution is concerned?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

No. I think that's been, that's something get fairly smoothly look at the new product as well. I mean if you were to see any issues from that it's you just see it from the products well and new product flows has been very, very good. So the transition and we appreciate very much the contribution that has made to that because they've been substantial and he continuous to work with company, he continuous to work on some very substantial projects and so I think it gets some transition.

Bill Choi - Jefferies & Company

So the senior management of that division offset and we are entertaining much of there's no restructure there?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

No.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Okay. And I think.

Bill Choi - Jefferies & Company

And also. Okay. And you mentioned that Fed business was kind a on expectation what vertical if any were disappointing for you in the quarter in the U.S particularly?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

There was probably broad base in the U.S. I mean it's more the generic execution of the team which really goes across vertical and almost all cases and again Bob says on the fact that lot of that was related to the I have ball to a degree with wrapping up, it excellent that did take longer than anticipated obviously not happy about but we're much more happy about where we are at this point and there is no evidence of one vertical versus another having any particular impact by that.

Bill Choi - Jefferies & Company

Okay. And then in terms of the new products coming out in Q4 certainly the 8000 seems to be a little head of within all your expectations were the 4000 sound about a monthly rate that was possible, could you just address what happen to the 4000 availability?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes. It's month, okay. I think it's couple of, maybe week or two.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

No, no. As our data source say in fact top line.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I think we are on track it's a complex product and it's moving to the factory really nicely and.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

We'll have in next month.

Bill Choi - Jefferies & Company

Okay. Within weeks, so.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

But you just think of it that raises one good point doing many commercial, what our customers are seeing from us they greatly appreciate in the case HDX9000 which was probably and of course the best product out there, is the fact that we will do what that part was actually more than a month late, if it was a month. But we make sure that product is completely from the standpoint that it is a superb customer experience on day one, the customer first here would rather be couple of weeks or a month late in have it right on the mark and then have it at the on-time and have it have a little bit job for our customer. Customer comes first and that is what we always execute.

Bill Choi - Jefferies & Company

Okay. And then based on pricing and general just really trying to figure all this out, ASPs is pretty on the group systems are still you know, ready for it below that of temper very good strong growth in the height of definition. So, I just want to see if you can give any color as to what has been happening to the pricing of the standard definition VSX product through the series you introduced the HD products.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Hardly that was related some of the promotional activity we had and I believe both second and third quarter around the camera with the lower end of the product line in Q1 and Q2 and that had some impact on ASPs, although, on the line, the line of course, ASPs are in good shape, so that was part of it, part of that was slightly into pace a bit 1000 product line, now we have that product line so I think we should be in pretty good shape with ASPs and also RPX was only couple of million in revenue in the quarter but we have things that should be rolling through and monetizing this quarter about text on as well as the keep you as quite frankly. So, cashier look at that our ASP should be in a pretty good shape in Q4 in no way.

Bill Choi - Jefferies & Company

Is the standard definition product ASPs holding up relatively well any colors specifically you could give on that?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

So I think you are holding up well, I don't see any major issues, I think they can price them correctly for the market, mainstream and the 8000 obviously comes in and top of them a little bit, but I don't anticipate any problem with them? with those.

Bill Choi - Jefferies & Company

Okay. And this is somewhat of the? you know, HD is getting to be more broadly adopted. I'm just wondering about the pricing years. The camera, I guess is really selling it on DVD quality products with software specifically for HD ear products and that means there is some tiring of the pricing here on average to standard definition product, 8000 VSX, but we are going to overall might be somewhere around 4500. Right, and then when you look at chambers it might be somewhere around 8000 for the HD up gradable product. Your HD product will still a little bit above that is that --

Bill Choi - Jefferies & Company

I don't think it would be 8000, I don't think so it would be 8000. I think ?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

And it is full XP is already upgraded to HD.

Bill Choi - Jefferies & Company

Right.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

It is a round up HD product architected to the market.

Bill Choi - Jefferies & Company

So are you and it seems like you definitely sure with the 8,000 pricing we're that is, that isn't not enough of that is very price competitive with product like Cambridge which is DVD quality with HD upgradeability?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

It's full HD quality in right in the sweet spot of the market. Competing with anybody out there.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

If you want the best money you can buy by the 9000 series. Which grew over 40%?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

And that's specifically you need those moderating inputs in those camera which is an important part of the market.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes. Absolute.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

This is a mainstreams enterprise class product we brought out.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Then also where get a CPX?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

With very nominal pricing given with the marketplaces.

Bill Choi - Jefferies & Company

Okay. So, I guess my both question was, you believe that where 8000 prices at the sweet spot where HD needs to go. And is that, how much of a premium do you think that is versus a competitive Tandberg product?

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

I think the product outperforms and its price for a real value for the customer, was they are going to use it at the full through megabits or they are going to take or you can't hire, we take it down to the 384 where they deliver HD. They delivered DVD quality at 384, so I don't know how much more it's going to, it's right out the sweet spot of the market, the pricing in is out there, so.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

And the 9000 is the best product line and has the following at the higher end.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

So I mean we look at the pricing from all the competitor we're right in there, we feel very comfortable about where we priced it. And we think, we've done the right job for the end user, the right job for the competition and we've certainly done the right job if you look at the way it been evaluated by outside sources, that it is a phenomenal platform.

Bill Choi - Jefferies & Company

Yes. Now you guys have the broadest these new products for sure. Okay. Thanks.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Thanks, Bill.

Operator

Our next question comes from the line of Joe Dickerson of Atlantic Equity Research. Please proceed with your question.

Joe Dickerson - Atlantic Equity Research

Yes, hi guys. How are you doing?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Thanks, Joe. How are you doing?

Joe Dickerson - Atlantic Equity Research

Good, thank you. Just a couple of our booking keeping type question. You paid both for GAAP and non-GAAP at a 28% tax rate.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes.

Joe Dickerson - Atlantic Equity Research

Do you, I mean normally companies in Corporate America generally speaking pay between 35 and 40. And you guys are paying at this at least 30 for several years now. Do you expect this to go back up to what other companies or do you think it's going to keep much well than order?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Well, we benchmark our company not against so for industries, but against technologies companies and companies broad sector communication and some of the more mega Cap high-tech as well, we do affirm amount of that activity one of the primers will look at of course is tax rates and all that naturally if you look our tax rates we don't operate in any kind of a different range of those matter of fact in general we might be a little higher in some cases. A big driver there, Joe is a fact we have a heavy international content and with the investment for making emerging growth opportunities and some of those activities we go through a very rigorous process to incur those structure is obviously rock solid and the reality is depending on where we are talking about revenues and the profit streams coming from it dictates what the blended global tax rates end up being. So I guess the short answer is no, there the guidance that we gave is, we feel very good about which is the 28% tax rate with our mix profit now we have the moving part that we have that I mean it like new shade and strips it's interpretation and regulation and all that I obviously don't have the ability to play out there but subject to that yes we expect 28% continue.

Joe Dickerson - Atlantic Equity Research

Okay. Good. One, another point I want to ask is the operating cash flow to the first nine months of this year was 93 million and to the first nine months of last year it was a 103 million and your earnings in revenue plus including the acquisition were like 35%, so why do you think, operating cash flow is lower this year than last year even though you're having like over 30% earnings in revenue growth?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Well, first of all really we have a little bit of a lower operating cash flow at the first quarter as I recall, yes, it was just 16.8 I believe if I am not mistaken in Q1. Yes, I think there are couple of things one is we had some of the initial integration on the SpectraLink side there is also something around that was I think around been 48 perhaps around some of the options cannibalization around operating cash flow, I just I have to double check on some of the drivers I think it was a mechanical drivers was operational driver on that but the trajectory is good, it was good year-over-year performance in this last quarter and in Q3 that is and we are obviously driving for good operational performance for Q4.

Joe Dickerson - Atlantic Equity Research

Okay. Good. And then one last question. Historically speaking you guys have a pretty wide discrepancy between your GAAP and your pro forma?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes.

Joe Dickerson - Atlantic Equity Research

It's one of the widest that I look at right and like it usually like your GAAP is like around 70% of your pro forma.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes.

Joe Dickerson - Atlantic Equity Research

But like on the two quarter previous to this I think was around the GAAP was around 50% and this quarter around 60% is reason why the difference between GAAP and pro forma is even getting much larger already.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes. This year we acquired small acquisition destiny accomplishing around telepresence at the beginning of the year, at the beginning of January and then at the end of the March, we acquired SpectraLink and so there are some IPRND write off and then there are some intangible amortization associated with that. And I'll be happy offline here to go through some of that more detail with you.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

At the top level that would be their core driver.

Joe Dickerson - Atlantic Equity Research

All right. Thank you very much.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Thank you, sir.

Operator

Our next question is a follow-up question coming from the line of Jason Ader of Thomas Weisel Partners. Please proceed with your question.

Jason Ader - Thomas Weisel Partners

Thanks a couple of housekeeping things, Mike what was the interest income guidance can you give that?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I said slight down from I just rate environment, just want to make sure it's a breathing room slightly down from the fourth quarter that we did in Q3.

Jason Ader - Thomas Weisel Partners

Okay. What was the share account like as of today?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Well, as they are coming well, I would just give the blind date it 94 or 95 or 61 for the end of the quarter. So it comes down just 0.5 million based on repurchase service to a less of a restock price.

Jason Ader - Thomas Weisel Partners

Well, I'm trying to figure out the point in time another average weighted?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes. You would expect that what we're doing, what I has to say about repurchase that you'll some activity that would look to drive it down, why don't gave exact share account guidance the other guidance, I've given, that I'm giving today that I gave earlier is up 750, but because you know, stock price related and everything else looks how it take, we are trying to be good and obviously in Q3.

Jason Ader - Thomas Weisel Partners

And then gross margins guidance was flat with Q3 correct?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Yes.

Jason Ader - Thomas Weisel Partners

But it sounds like just based on you commentary, video should be bigger piece of the mix, while the gross margin to be flat.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

While, we also have as Mike said handset case and addition we have a successes we're having maybe some of the revenue out of 3COM. So there's a lot and those are vastly different gross margin points that you know so really depend on the mix at this point. I wouldn't want to get paid to much thing one way the other, I think the guidance we gave should be in good in shape.

Jason Ader - Thomas Weisel Partners

Okay, Microsoft since you got it up, so it sounds like you are modeling some inform contribution in fourth quarter?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

I think, well I should you can say that the VoIP is doing very well and continue to do very well and we expect to have a very strong Q4 and was it rightly. Including Microsoft the 3COM and all the other partners they are just 27 partners who we are working with today.

Robert C. Hagerty - Chairman, Chief Executive Officer and President

Microsoft one of them.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

And Microsoft the Importantly one.

Jason Ader - Thomas Weisel Partners

Absolutely.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

You know I think there is a lot momentum in the existing base as well, so it's just to good it's a story, I mean we're making a lot of progress in that pace.

Jason Ader - Thomas Weisel Partners

Do you think it will be a material contributor, kind of going forward here in the next couple of quarter?

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Microsoft specifically?

Jason Ader - Thomas Weisel Partners

Yes.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

We believe that our partnership is an excellent one. We are very pleased they've entrusted with a big portion of what adds value to that present space system and we absolutely plan on having a contribution. I don't want to put the materiality word on it because in that curve how these things go always somewhat unpredictable. It takes time to know but we are very excited about the prospects let's leave it back.

Jason Ader - Thomas Weisel Partners

Okay. Thank you, guys.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Thank you.

Operator

I am sure no further questions at this time.

Robert C. Hagerty - Chairman, Chief Executive Officer, and President

Thank you very much for following Polycom. We appreciate your involvement as Polycom looks forward to an exciting launch its several new products and our expected ramping revenue opportunities with our strategic partners. We will see you next time. Thanks very much.

Michael R. Kourey - Senior Vice President, Finance and Administration and Chief Financial Officer

Thanks everyone.

Operator

Ladies and gentleman that does conclude the conference.

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