



# A Letter to Our Shareholders

Dear Shareholder:

2008 marked another year of impressive growth for Polycom and the unified collaboration industry. Once a nascent technology, unified collaboration is rapidly gaining adoption as a mission-critical application. Organizations of all sizes are seeking ways to reduce costs, increase productivity, and cultivate new and existing relationships within and outside of their business.

For Polycom, these secular trends helped drive record results in 2008. Highlights of our financial performance include:

- Record revenues of \$1.1 billion,
- Annual revenue growth of 15%,
- Record Non-GAAP net income of \$130 million, and
- Record operating cash flow of \$167 million.

In spite of the challenging economic environment, our balance sheet and fundamentals remain sound. As of the fourth quarter of 2008, we had \$324 million in cash and investments, no debt, and an impressive track record of delivering positive operating cash flow, now 44 consecutive quarters in a row. We believe this financial strength serves as a key competitive advantage as we navigate the current environment, execute on our long-term strategy, and position Polycom to benefit from the evolution to unified collaboration.

## Secular Trends

The key drivers of unified collaboration—return on investment, reduction of carbon emissions, and the globalization of the enterprise—are sustainable, long-term trends that are experiencing widespread acceptance and fast adoption. Polycom is at the forefront of this movement as the pure-play leader in unified collaboration with the most innovative and extensive open platform that enables people to connect and communicate over distances as naturally as in face-to-face settings.

### Travel and Transportation Cost Controls

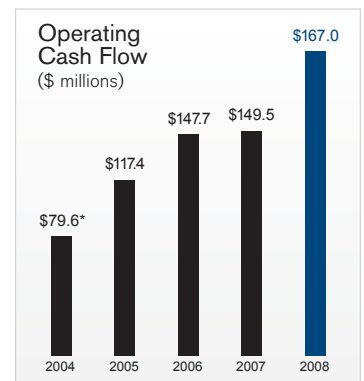
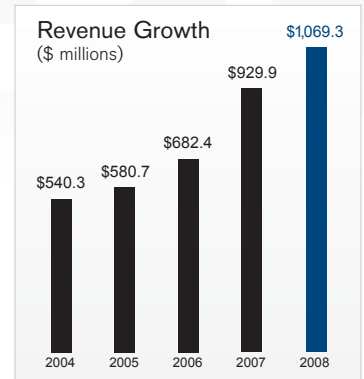
In today's economy, enterprises are tightening budgets and limiting discretionary spending. In an effort to curb the out-of-pocket expenses and the opportunity costs of physical travel, enterprises are embracing the ability to connect people, regardless of location, and whether at a fixed location or mobile. In fact, Gartner predicts video telepresence will replace 2.1 million airline seats per year by 2012, losing the travel industry US\$3.5 billion annually.<sup>1</sup> We believe Polycom is uniquely positioned to benefit from this environment given the rapid ROI and seamless integration of our solutions.

### Carbon Footprint

Governments are increasingly issuing mandates for companies and public sector organizations to reduce carbon emissions over prescribed periods. Many enterprises are employing Polycom's end-to-end suite of immersive video and voice collaboration solutions to efficiently and effectively comply with these mandates and reduce their carbon footprint.

### Globalization of the Enterprise

As a result of the extensive globalization of the economy, enterprises are turning to unified collaboration solutions to help remove the distance barrier. With Polycom solutions, collaboration becomes a natural and ad hoc experience, regardless of location. Importantly, no time is lost in the process—every minute can be devoted to communicating productively and efficiently.



\*Net of \$27.5 million litigation settlement

## Why Polycom

We believe our scale, reliability, and open systems make Polycom solutions the easiest to deploy and manage, offering seamless interoperability and simple integration within any IT architecture. The breadth of our offering fills the needs of customers of all sizes, from small businesses to large enterprises—at their desktop, in meeting rooms, and while mobile. Our technological leadership in immersive telepresence, HD video, voice, and content, and our extensive bandwidth management, ensures our customers benefit from the cutting edge of unified collaboration solutions.

Our unique value proposition enables us to create long-term strategic partnerships with the highest-caliber companies in the unified communications ecosystem. Companies such as AT&T, Avaya, BT, Cisco, France Telecom, IBM, Microsoft, and Telstra have selected Polycom as a key partner. In 2008, we also increased customer coverage through our direct-touch sales force and a variety of go-to-market initiatives with our strategic and channel partners.

Additionally, we executed several high-impact marketing campaigns designed to drive awareness and adoption of Polycom's industry-leading innovations. For example, in the fourth quarter of 2008, we rolled out a customer-based ROI application that quantifies and tracks the hard-dollar benefits of our solutions. This software tool was developed with the CFO in mind and calculates financial returns based on specific customer inputs, including out-of-pocket travel expenses, opportunity costs, and business efficiencies. We are pleased with the initial response from many CFOs that have tested and scrutinized this ROI calculator. Our customers of all sizes tell us that the fast ROI of our solutions is compelling for both the initial adoption and extensive use of Polycom's HD collaboration technology.

## Looking Forward

We enter 2009 from a position of strength. On the heels of a record 2008, our market leadership, proven go-to-market strategy, strong balance sheet, and healthy fundamentals create a solid foundation from which to grow long-term. As we continue to benefit from the sustainable secular trends in unified collaboration, we expect our video business to grow in 2009. This may be offset in part by our voice communications solutions, which we expect to be more impacted by the economic environment. Preparing for the more difficult operating environment in 2009, we have taken proactive steps to optimize our cost structure, and we are confident in the agility of our execution as evidenced by the cost reductions we undertook as we exited last year.

Recognizing the challenges facing most companies in 2009, market research firm Yankee Group reported in December: "Video-enabled business processes will be born in 2009. Videoconferencing has grown steadily as a replacement for travel due to green benefits and lowered travel costs, and this year will see the full emergence of this trend."<sup>2</sup>

In these challenging economic times, customers are looking to Polycom for innovative ways to manage their operating costs and improve organizational efficiencies. We offer the scale, reliability, and open architecture required to easily deploy and manage unparalleled unified collaboration across the enterprise. We also have the broadest offering available on the market and the technology leadership to drive continued, industry-leading innovation. As a result, we believe Polycom is uniquely positioned to help large and small enterprises alike fulfill their need to collaborate, whether across town or around the globe.

Our confidence in our business is made stronger by the talented people throughout our global organization, who embody our innovative and strategic approach. Their exceptional performance and contributions are at the heart of every Polycom product, service, and solution. I want to thank them as well as our customers, partners, suppliers, and, of course, our shareholders for their continued support. I look forward to another year of achievements in 2009 and an even brighter future long-term.



Robert C. Hagerty  
Chairman of the Board, CEO, and President  
Polycom, Inc.

<sup>1</sup> Gartner, Inc.: "Gartner Predicts Video Telepresence Will Replace 2.1 Million Airline Seats Per Year by 2012, Losing the Travel Industry \$3.5 Billion Annually," February 6, 2009. The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Letter) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

<sup>2</sup> Yankee Group Research, Inc.: "It's the Economy, Stupid: Yankee Group's 2009 Predictions," David Vorhaus, Ashvin Vellody, Declan Lonergan, and Zeus Kerravala, December 2008.



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