



A Letter to Our Shareholders

Dear Shareholder:

2010 marked an extraordinary year for Polycom. We transformed into a fully integrated customer-centric business and established Polycom as the ecosystem partner of choice. Importantly, we launched and successfully executed a very ambitious investment plan to capture the opportunities of the network effect taking hold of the unified communications (UC) space.

Driven by focused execution, we gained market share, developed breakthrough innovations, and entered new strategic partnerships with market leaders such as Microsoft, HP, and IBM. In combination with strong secular tailwinds, these efforts yielded impressive financial results for 2010.

Specifically, we:

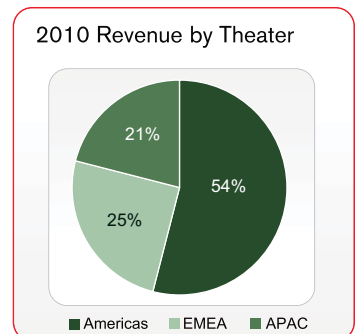
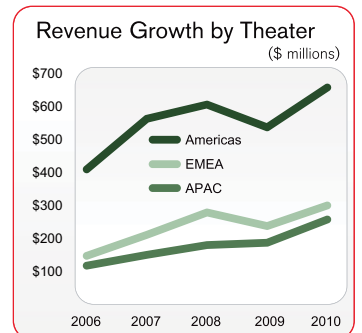
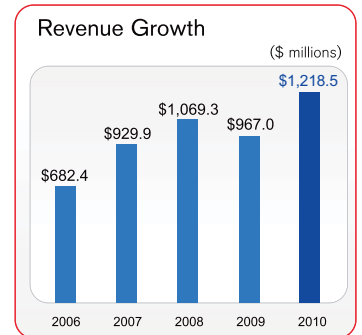
- Grew revenues by 26% to a record \$1.22 billion;
- Grew Non-GAAP net income by 30% to a record \$133 million;
- Expanded non-GAAP operating margins by 50 basis points to 14.7%; and
- Delivered operating cash flow of \$143 million and, with the fourth quarter, our 52nd consecutive quarter of positive operating cash flow.

We exited the year in a position of strength, with sound fundamentals, cash and investments of \$536 million, and a debt-free balance sheet.

Five Pillars of 2010

Over the course of 2010, we periodically benchmarked our execution against five strategic imperatives designed to drive market leadership and growth:

- **Go-to-Market** – We developed and expanded our high-touch sales coverage by nearly 200 additions, with increased focus on emerging markets and in U.S. Federal; optimized the mix of sales people to sales engineers to 2.3:1; and added 13 UC Solution Centers in high-growth markets to best showcase Polycom's solutions.
- **Strategic Partnerships** – We built the successful Polycom Open Collaboration Network™ through strategic relationships with the industry's most sought after companies, including HP, IBM, Juniper, Microsoft, Siemens, and others. With Microsoft, for example, we have tightly integrated Polycom's UC technology with the Microsoft® Lync™ platform.
- **Service Providers** – We began offering service provider-grade infrastructure for delivery of hosted and managed services.
- **Professional Services** – We drove complex deployments globally with platforms such as IBM® Lotus® Sametime® and Microsoft Lync, yielding professional services revenue growth of 35% in 2010.
- **Innovation** – We integrated video and voice development into one nimble UC Innovation Engine to increase the speed of innovation, eliminate redundancy, and shift to an efficient cost model through the use of fewer innovation centers. With this agile team, Polycom is driving breakthrough innovations such as our development of the Scalable Video Coding (SVC) technology that will soon be integrated into Microsoft Lync and other leading platforms.



A Visionary Team

To best capture the unprecedented opportunity in one of the fastest-growing sectors in technology, we have assembled a world-class management team that I believe is second to none. Executive additions over the past several months include:

- **Sudhakar Ramakrishna, EVP and GM, UC Solutions and Chief Development Officer**
Previously Corporate VP and GM for Motorola's Wireless Broadband Access Solutions and Software Operations.
- **Joe Burton, EVP, Chief Strategy and Technology Officer**
Previously Cisco's CTO for Unified Communications, encompassing video technologies, WebEx collaboration, call management, and social computing.
- **Sue Hayden, EVP, Worldwide Marketing GTM**
Previously Group VP of Sales for OracleDirect.
- **Gary Rider, President, Europe, Middle East, and Africa**
Previously VP of Europe Global Sales and Marketing for NCR, responsible for \$1.3B in annual European sales.
- **Ashley Goldsmith, EVP, Human Resources**
Previously SVP of Human Resources for a diagnostics equipment unit of F. Hoffmann-La Roche.

In combination with our other world-class executives, I firmly believe we have the management team in place to take Polycom to the multi-billion dollar revenue level.

To the Next Billion

The UC industry is at an inflection point, directly benefitting from a fundamental shift in the way people communicate. This shift is being led by secular trends including: the rapid adoption of video, the pervasive use of mobile devices, and the emerging use of the cloud to deliver UC solutions, particularly in small-to-medium businesses (SMBs). As a result, we believe we are at the early stages of a complete virtualization of society.

As we enter 2011, we are poised to execute on the second phase of our strategy, which emerges from these market dynamics and our strategic successes over the last year. Polycom's 2011 strategic imperatives are:

2011 Imperatives

- ▶ Cloud-Based UC
- ▶ UC Mobility
- ▶ UC Ecosystem
- ▶ UC Intelligent Core
- ▶ UC Innovation Engine

- Cloud-based UC – We plan to leverage our open and scalable architecture through strategic service provider relationships such as AT&T, Verizon, BT, China Unicom, and other large-scale providers to make Polycom's Cloud UC the adoption method of choice for SMBs and many segments of enterprise and government. Our partnerships with Ericsson, Juniper, and BroadSoft are already enabling us to deliver highly differentiated Cloud UC solutions for service providers of all types.
- UC Mobility – We intend to accelerate cloud and Customer Premise Equipment (CPE)-based UC adoption by enabling every individual, whether professional worker or consumer, to have an integrated, high-definition UC experience, connecting into a business meeting or with a colleague in a social setting. Polycom will integrate securely and seamlessly from consumer to enterprise across all major platforms and devices such as Motorola Xoom, Samsung Galaxy, and other platforms such as RIM/BlackBerry, Microsoft Windows Mobile 7, and Apple.
- UC Ecosystem – Building on our success in forging the Polycom Open Collaboration Network, we intend to leverage these strategic partnerships, delivering to our customers a uniquely integrated UC solution on their platform of choice. Although some of the partnerships are early in their evolution, we are already experiencing fast revenue growth by working with these partners—increasing to approximately 23% of consolidated revenues in the fourth quarter.
- Polycom® UC Intelligent Core™ – We plan to deliver further advances in our unparalleled UC network infrastructure, building on our best-in-industry virtualized architecture, port flexibility, bandwidth efficiency, and end-to-end network integration. Even with our record Network Infrastructure revenues exiting last year, we foresee the opportunity for the Polycom UC Intelligent Core platform to be the nexus for UC communications solutions, whether fixed or mobile, CPE or cloud.
- UC Innovation Engine – We have a team of over 800 research and development staff that we have brought to Polycom from the finest companies and universities throughout the world. Under the leadership of our new CSO and CDO, we have an innovation capability that is agile and the most effective I have seen. We intend to utilize this creative asset to capture the immense opportunity in the UC market by delivering breakthroughs in our customers' UC experience in the network, with mobile devices, and through an increasing number of software applications.

The operational excellence that has underpinned our success over the past year will continue to serve us in 2011. As we look toward becoming a multi-billion dollar company, we expect to reap the benefits of last-year's strategic investments in sales coverage, our strategic partnerships, and with our UC Intelligent Core. Over the next year, we will selectively invest in initiatives that drive our aggressive strategy. This will include investments in Brazil, Russia, India, and China (BRIC), where we are already experiencing record successes such as surpassing \$100 million in booked business for the first time in China last year. We will continue to invest in our initiatives with IBM, Microsoft, the service providers, and other key partners to best capture the demand for what we call UC Everywhere.

We will also leverage our recent acquisition of Accordent Technologies, a leading provider of video content management and delivery solutions. By integrating this solution into Polycom's UC Intelligent Core, we now deliver an innovative, flexible, and world-class video communications solution to customers over the entire content lifecycle.

Summary

The proliferation of UC, and video in particular, is evident today and we believe Polycom, as the only independent player of scale, is uniquely positioned to capture the momentum in this market. We believe our innovation engine, strategic partnerships, strong go-to-market team, and favorable industry dynamics will enable us to deliver against our 2011 strategic plan. As a result, we expect to generate strong revenue growth and operating margin expansion in 2011. I want to personally thank our employees, customers, partners, suppliers, and shareholders for their continued support at this exciting time for Polycom and our industry.



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