



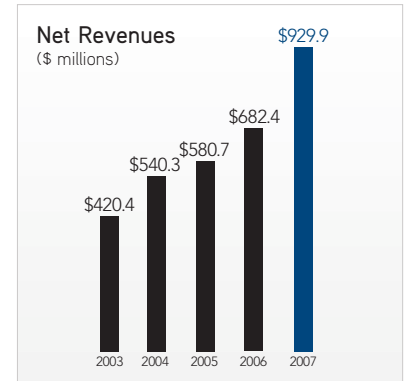
A Letter to Our Shareholders

Dear Shareholders:

2007 proved to be an exceptional year for Polycom. We closed out the year having demonstrated substantial growth in revenue, profitability and operating cash flow, and established a solid foundation to drive growth long term. Highlights of our 2007 financial performance include:

- Record revenues of \$929.9 million, representing annual growth of 36% (20% excluding the SpectraLink acquisition);
- Record revenue run-rate of over \$1 billion during the fourth quarter of 2007;
- Record Non-GAAP net income of \$128.9 million, representing annual growth of 31%; and
- Record operating cash flow of \$149.5 million.

Our record-setting performance in 2007 underscores our unique value proposition to customers and the strong underlying market demand for enterprise-wide collaboration solutions.



Unique Value Proposition

Our success and leadership in the industry is predicated on our customer-centric strategy. It shapes our product development initiatives, defines our go-to-market strategy, and differentiates us from the competition. We offer our customers a truly unique portfolio comprised of an innovative suite of best-in-breed collaboration solutions, a compelling delivery model through our strategic and reseller partnerships, and an unmatched services platform. In turn, we enable our customers to collaborate at a distance – in meeting rooms, at their desks, and while mobile. Recognizing that a compelling value proposition is only half the battle, we made excellent progress throughout the year in strengthening our strategic partnerships and global channel partner network, while investing in our direct-touch sales force. With this improved go-to-market strategy, we are positioned to leverage the global need for collaboration solutions and deliver our unique value proposition to more customers around the world.

Market Dynamics

Several drivers have converged simultaneously to create unprecedented demand for Unified Collaboration Solutions.

Globalization of the Enterprise

Globalization of the enterprise is a paradigm shift in business affecting the entire industrialized world and an increasing share of emerging markets. Companies are expanding rapidly across geographies, and workforces are increasingly becoming more mobile. Whether it is distant design centers, sales channels, manufacturing operations, business process outsourcing, or the geographic dispersion of educational or government activities, workforces are increasingly turning to our solutions to collaborate effectively, on-demand, and from any location.

Proliferation of Clean Technology

The public is demanding that companies reduce carbon emissions through the adoption of clean technologies and processes. In many countries, government mandates are requiring companies to reduce carbon footprints. An increasing number of companies are adopting our solutions as an effective method of complying with these mandates and meeting internal green initiatives.

Travel and Transportation Cost Controls

With the cost of travel and transportation increasing dramatically over the last year, companies around the world are seeking ways to significantly reduce travel spending and other related costs. Further, with an uncertain macroeconomic environment, companies have begun to implement corporate wide cost control initiatives. By adopting our video, voice, and content solutions, companies can significantly reduce unnecessary travel costs on Day 1 of implementation.

The ability to improve productivity, drive higher efficiencies, and reduce unnecessary costs across the enterprise is at the heart of these global market dynamics. For these reasons, IP-based collaboration technology is once again a top-10 CIO budget priority for the third year in a row¹. Increasingly, CIOs and other operating executives are tapping into our powerful platform to enable improved top and bottom line performance.

Key Polycom Milestones

Over the last year, we reached several important milestones and achievements. We made significant advances in our strategic and channel partnerships, our sales force and our collaboration solutions, and successfully completed a very important strategic acquisition in SpectraLink. While the true test of our product leadership is determined by our valued customers, we were pleased to be recognized as a leader in the collaboration space by several industry analysts.

Strategic Partnerships

Strategic partnerships are a key element of our go-to-market strategy. With collaboration technology as a core platform for customer networks, our standards-based integration with virtually all of the major call management and presence based unified communications and service provider partners enables us to deliver a seamless solution in any network environment. For example, we announced a new partnership with Microsoft in the fourth quarter, providing integrated VoIP handsets with their Office Communications Server 2007 offering. We also expanded our relationship with Nortel by adding our HD video and telepresence solutions to their existing offerings. In addition, our partners AT&T, BT Conferencing, Cisco, Easynet, Telstra, and Verizon launched new video managed services based on our leading solution suite. Of course, our partnerships with Alcatel-Lucent, Avaya, IBM, and many others are continuing to thrive as we together provide an integrated collaboration solution.

Direct-Touch Sales Force and Channel Network

We added almost 250 sales people during 2007, focusing our investment in the fastest growing geographies and vertical markets. In concert with these additions, we stratified our sales force into core competencies, comprised of global accounts, large regional enterprises and emerging companies. We believe early returns are already visible in Europe and Asia, where we first implemented these enhancements to our sales force model.

High Definition (HD) and Telepresence

We launched a complete product line of award-winning telepresence and HD video conferencing systems during the year, providing our customers with a quantum leap in video, voice, and content quality. Our RPX™ and TPX™ telepresence systems offer the most immersive and flexible telepresence capability in the world today, addressing the unique demands of the C-suite. In addition, our flagship HDX 9000™ system was rated as the best HD video product in the market by respected authority Wainhouse Research². In the fourth quarter of 2007, we expanded this product line to include the HDX 8000™ group video system and the HDX 4000™ product for executive desktops. Unique to Polycom, HD does not stop with video. With Polycom, our customers experience a collaboration platform that goes beyond HD video to provide Polycom HD Voice™ and HD content—enabling an end-to-end HD customer experience that is essentially better than in person since it provides all the benefits of face to face without the time or cost of travel.

SpectraLink Acquisition

In the first quarter of 2007, we acquired SpectraLink, a leading wireless over LAN handset provider. This strategic acquisition enables us to provide our customers and partners with a fully integrated solution for mobile individuals in all work environments. With this core platform, we now have the ability to extend our video and content sharing capabilities and our hands-free voice communications to a variety of mobile worker applications.

Industry Recognition

Over the last year, several media and market research organizations recognized our leadership in providing best-of-breed products and solutions:

- TMC Internet Telephony Magazine 10th Annual Product of the Year Awards—HDX 8000 and CX Series
- VON Magazine Innovators Award—SoundPoint® IP 550
- InfoWorld 2008 Technology of the Year Award—SoundStation® IP 4000 and SoundPoint IP 650
- iF 2008 Product Design Award—KIRK® 5020 wireless handset
- VoIP News Top 20 VoIP Influencers for 2007

Looking Forward

As we enter 2008, we do so from a position of strength and with market demand at unprecedented levels. We lead the industry with a complete, best-of-breed HD product suite, delivering to our customers an unparalleled experience in unified collaboration. With the globalization of the enterprise, green mandates in many countries, and travel costs increasing sharply, the need for collaboration technology has never been so clear.

In answer to this significant opportunity in 2008, Polycom will continue to work closely with our strategic partners and channel network to deliver integrated solutions that solve our customers' need to collaborate effectively, regardless of location or industry-specific application. Also, as a key element of our customer-centric strategy, we will continue to increase our sales coverage in high growth geographies and vertical markets. 2008 marks an exciting period for Polycom where market drivers and technology enablers have converged to create the opportunity for us to build a much larger company as we answer our customers' demand for unified collaboration solutions.

We look forward to delivering superior returns to our shareholders over the coming quarters and years. On behalf of the Board of Directors, executive staff, and all the valued employees at Polycom, we thank you for your continued interest and support.



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

¹ Gartner: "2008 Gartner Executive Programs CIO Survey: Member Release," Mark P. McDonald, Tina Nunno and Dave Aron, January 2008

² Wainhouse Research: "HD Videoconferencing: Three Leading Contenders Face Off," October 2007

