

SAN FRANCISCO Business Times

SAN FRANCISCO
OAKLAND
EAST BAY
PENINSULA
NORTH BAY

Breaking news daily @ SanFranciscoBusinessTimes.com

Vol. 24, No. 49

July 2-8, 2010

\$2.00

Polycom hiring 920 this year

Videoconference company cuts profit to accelerate growth

BY PATRICK HOGE
San Francisco Business Times

Sometimes, the best defense is an offense.

Facing increasing competition from both newcomers and consolidated industry heavyweights, Polycom Inc. responded with a capital investment and global hiring spree.

The seller of telepresence, video and voice technology and related services is adding 920 people this year. It has already hired about 400 employees, and plans to

hire 520 more by year's end. About 100 of those hires are slated for the company's three Bay Area locations, including its Pleasanton headquarters.

The additional troops, coming largely in sales and research and development, are part of an aggressive strategy to cut profits and invest in growth put in place by new President and CEO Andrew Miller, a former CEO at Polycom competitor Tandberg who took the place of Bob Hagerty, who was abruptly replaced in May.

The necessary investment required dipping into profit, says CEO Andrew Miller.

SEE POLYCOM, 34



PHOTO BY JONAS

Businesses are feeling a thaw

Shoppers beginning to open their wallets

BY RON LEUTY
San Francisco Business Times

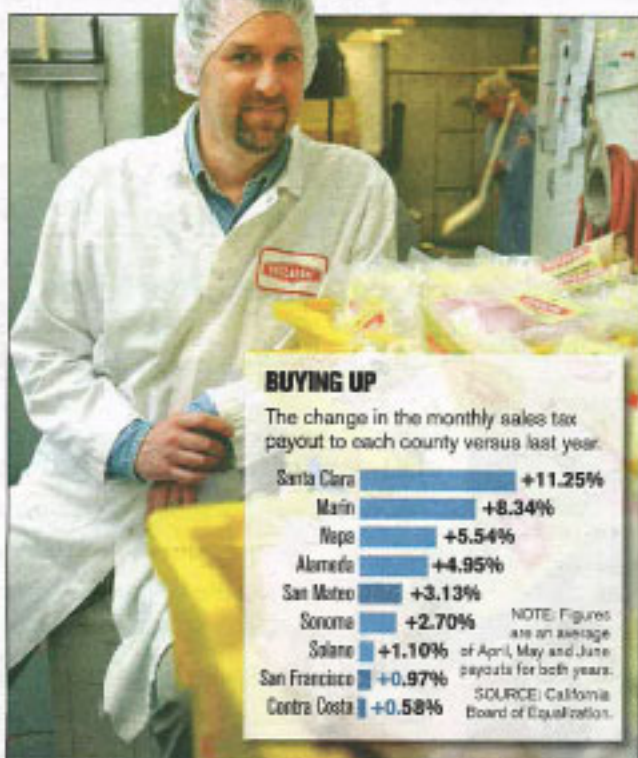
The good: Bay Area consumers are spending more.
The bad: It apparently won't last.

And the ugly: It might get worse, at least compared with last year.

The average sales tax revenue distributed over each of the past three months to counties by the California Board of Equalization rose from the same period last year in all nine Bay Area counties. That means consumers spent more, so more taxes eventually ended up back in the hands of county governments.

It is the first data in several months to show a broad, year-over-year increase—even a blip—in consumer confidence.

"People are out there and they're spending, but they're value-oriented," said Mark Pastore, co-owner of cured meat company Boccalone and the Noe Valley restaurant Incanto. "As a business,



SEE RETAIL, 35

Consumers are value-oriented, says Mark Pastore of Boccalone.

Developer takes over Bayview job

Project was stalled for years

BY J.K. DINEEN
San Francisco Business Times

Developer Rick Holliday is stepping in to take over the stalled 198-unit project on Jamestown Avenue in the Bayview District, a condo development that was abandoned two years ago amid a storm of lawsuits and the collapse of the housing market.

Holliday will start work immediately to complete the first two buildings totaling 66 units: One of the buildings is 80 percent done and the other is 40 percent complete. Construction costs to finish phase one will total approximately \$10 million. Work on the \$20 million phase two, also 66 units, will commence once sales of phase one gain traction. Holliday said he doesn't know when they would build



Holliday

SEE JAMESTOWN, 34



Stimulus Watch: Find contract info
SanFranciscoBusinessTimes.com/Stimulus

#BXNMVCL *****ORIGIN MIXED ADC 948
#071427792# 1/4/2011 51 P1 2B
RICK HOLLIDAY FR3
HOLLIDAY DEVELOPMENT LLC
1500 PARK AVE APT 200
EMERYVILLE CA 94608-3518



PROFILE = 17

Meet the COO of BayBio, Jeremy Leffler.

SMALL BUSINESS = 16

Raison D'être offers a reason for eating.

FOCUS: FAMILY BUSINESS = 19

Robert Yick Co.: Working with the stars.

THE LISTS = 22, 24-28

Family-owned, largest private companies.

POLYCOM: Aiming to grab market share from Cisco

CONTINUED FROM PAGE 1

"I felt that the investment that we needed to make could only have been made by making this reduction in profits for 2010 to fund that. That was the real difference of philosophy," said Miller, who joined Polycom as head of global field operations in July 2009 shortly after ending five years as CEO at Norway-based Tandberg. "I believe I brought the credibility and plan to do that."

Considering acquisitions

Revenue has continued to increase, rising 23 percent from \$225 million to \$276 million between the first quarter of 2009 and the first quarter of 2010. Net income in the first quarter was down, however, to \$5.4 million after ranging between \$8 million and \$15.3 million per quarter in 2009.

Miller is betting that Polycom can pick up a greater share of the growing unified communications market — which includes video, voice and telephony — despite Cisco Systems' recent acquisition of Tandberg and other consolidations, like Logitech's acquisition of LifeSize in December. Cisco offered to buy Tandberg in late 2009 and wrapped the deal up in April, paying about \$3.3 billion.

Speculation has been widespread that Polycom would also try to be acquired. But Miller, whose background is in marketing and sales and who was also a top executive at Cisco, threw cold water on the idea, insisting Polycom can go it alone and would likely be acquiring companies itself.

It finished the first quarter with \$470 million in cash and investments and no debt.

Polycom expects to grow faster than the overall market, which is projected to expand by 13 percent this year and 23 percent in 2011, Miller said.

Demand for video communication equipment is particularly strong among small and medium-sized businesses, he said.

For example, the South Carolina Department of Mental Health over the last 15 months has put \$54,000 Polycom video units in 17 of the state's 65 largely rural hospitals with 24-hour emergency rooms to allow for remote consulting. The program has been a smash hit with staff and patients, who get helped faster.

Ed Spencer, director of the state's telepsychiatry consultation program, said another 10 hospitals are ready to install systems, and medical officials across the state want to use them to share expertise in other subject areas.

"It's the most exciting program I've done in my years here at mental health," said Spencer, who praised Polycom's service.

Doubling executive staff

Polycom had laid off 150 people in the first quarter of 2009 and started 2010 with 2,720 employees. The new hires so far include about 200 "high touch" sales people, including systems engineers and architects, and 150 people in research and development, Miller said. Polycom plans to build 16 costly product demonstration centers around the world to help sales.

WHO'S HIRING: POLYCOM

Jobs: 100.

Type: Sales, research/development.

Location: Bay Area.

JAMESTOWN: Revived project to have \$25 million payroll for construction jobs

CONTINUED FROM PAGE 1

the third and final 66-unit phase.

The project, a glaring example of how the real estate downturn hit hardest in underserved neighborhoods, will generate "\$25 million or \$30 million" worth of sorely needed construction jobs at a time when many of the construction trade unions are suffering 30 to 40 percent unemployment, according to Holliday.

"This has been a very troubled project, but there is a new sheriff in town and we are going to make it a good project," said Holliday.

The Jamestown development was one of two projects developer Noteware Development and equity partner Goldman Sachs paid top dollar for at the apex of the frothy real estate market. Noteware and Goldman Sachs shelled out an eye-popping \$18.5 million for the Bayview site in 2006. At nearly \$100,000 a door, Noteware and Goldman's investment cost more than most luxury developers were paying for the most expensive highrise sites in Rincon Hill and SoMa. The team proceeded to snag a \$90 million construction loan from Citibank for the Jamestown project.

By 2008, it was clear that the market was heading down and construction was halted on the project, along with the 340-unit 5800 Third St., another Noteware/Goldman Sachs joint venture that was taken over by Holliday a year ago.

After the project was stalled, 15 subcontractors and suppliers filed complaints worth more than \$10 million against contractor Thompson Pacific and Jamestown Equity Partners, the limited partnership set up to develop the property, according to legal complaints.

These included Nicodemus Plumbing, which was owed \$3.6 million, and smaller claims by Hillside Drilling, Enterprise Roofing, Northside Plastering, Mark Horton Architects, Bode Concrete, Helix Electric and others, according to the complaints. The new development team was able to settle for less than half the



The Jamestown Avenue construction site has been mothballed since 2008.

original lien amount, and many of the original subcontractors will be brought back on the job, according to Holliday.

"Cleaning the liens up was not terribly expensive, but it was complicated because so many people were involved," said Holliday. "Those (subcontractors) are our first choice to put back to work now that we have bank financing back in place."

Holliday has brought on Cannon Constructors to jump-start the project, the same team that took over Noteware's 5800 Third St., which is nearing completion.

James Noteware, who was president of Noteware Development, is now working as the director of housing and community development for the city of Houston and commented through a spokesperson, Janice Evans, that he didn't walk away from the project.

"He sold his interest in those projects and didn't owe anyone anything," said

Evans.

While Noteware had originally positioned the development as workforce housing priced about \$600 a square foot — \$600,000 to \$700,000 a unit — the new pricing will likely be just under \$400 a square foot. The project will be billed as family housing close to biotech jobs in South San Francisco, the state park at Candlestick Point, as well as the massive redevelopment project slated for the Hunters Point Shipyard.

Holliday said Citibank and Goldman Sachs deserve credit for not completely walking away from what was essentially a terrible investment. He particularly credited former Goldman Sachs executive Jesse Blout for pressuring the banks not to sell the note as a write off. Blout declined to comment.

"It could have been bad — it could have sat there and rotted and rusted for years," said Holliday. "Everyone knows full well they are not going to make

Miller is also doubling the size of the company's executive staff, adding a chief strategy officer, chief technical officer and head of European operations, among other positions.

Major rebranding

To differentiate itself, Polycom is positioning itself as a champion of open standards and interoperability, painting Cisco in particular as a less-flexible, closed system. The company is planning a rebranding campaign, and currently has requests for proposals out with three large branding firms.

Company officials say Miller was the prime mover behind the Polycom Open Collaboration Network, an evolving interoperability and resale initiative announced in January that now includes partnerships with Hewlett-Packard, Microsoft, IBM, Siemens, Juniper, BroadSoft and Avaya.

Achieving material results from such alliances presents challenges, however, as some of those companies have competing products.

Nevertheless, Miller's ascension has been well received on Wall Street.

"He's brought a level of intensity and accountability to the organization that was severely lacking previously," said Jason Ader, a stock analyst with William Blair & Co.

Polycom for the last decade had "underperformed" and had been losing market share, falling behind on product releases and running a sales operation below its potential, Ader said.

"He came in and really shook things up," Ader said. "It's had a very large impact, and I think we've only seen the beginning of it."

phoge@bizjournals.com / (415) 288-4948 ■

money. I think it speaks particularly well for Citibank and Goldman to say, we made some mistakes, but we need to finish this thing so it's not an eyesore."

In addition to the construction issues, Holliday faces 11 complaints from the San Francisco Department of Building Inspection. The property was cited under a new ordinance that requires abandoned or vacant buildings to register and pay an annual fee. They also face some angry ex-Noteware team members who say they are owed money. Claude Everhart, a community outreach specialist who worked with the neighborhood to get the land entitled, said he was not paid for his work. He declined to say how much he is owed.

"I am angry at how these guys have treated this neighborhood," said Everhart. "You would not treat a neighborhood in another part of the city like we were treated. My community has sat out here with this albatross of a project for all this time and all the people who worked with the community have not been paid."

Holliday has been working with the city Planning Department to redesign some of the landscaping around the development and will meet with neighbors to discuss the latest developments.

"We need to do some redesign and consider different landscaping and meet with neighbors to reconnect because there have been so many promises made for different things," he said.

Chris Foley of Polaris Group, who brokered the sale of the property to Goldman Sachs and Noteware, said Holliday and Citibank deserve credit for cleaning up all the liens on both projects and moving them forward.

"It has been a lot of work for them and I salute them," said Foley. "I think the real goal here is to finish a project that was started, to keep a promise made to the community, while recouping as much capital as possible."

jdolan@bizjournals.com / (415) 288-4971 ■