



# Second Quarter 2012 Earnings Conference Call

July 24, 2012

Patrick Harshman, President & CEO  
Carolyn Aver, Chief Financial Officer

harmonic<sup>®</sup>

ENABLING THE VIDEO ECONOMY™



**During the course of this presentation, we will provide projections and other forward looking statements regarding future events or the future financial performance of Harmonic, including expectations concerning our 2012 business strategy and our Q3 2012 financial outlook. Such statements are only current expectations and actual events or results may differ materially. We refer you to Harmonic’s filings with the SEC, particularly our most recent Reports on Form 10-K and Form 10-Q. These documents identify important risk factors that could cause actual results to differ materially from our projections or other forward looking statements. We will also present financial metrics determined on a “non-GAAP” basis. These items, together with the corresponding GAAP numbers and a reconciliation to GAAP, are contained in this presentation and the related earnings press release on our website at [www.harmonicinc.com](http://www.harmonicinc.com).**



## ▶ **Bookings \$139.5M**

- Up 6% from Q2-11
- Healthy North America demand, weaker International demand
- Increasing IP video project wins

## ▶ **Revenue \$132.6M**

- 9% North America growth, -10% International decline from Q2-11
- Video Processing and Services strength
- Increasing project mix, record backlog of \$146M

## ▶ **Operating performance**

- Gross margin 48% (non-GAAP)
- EPS \$0.06 (non-GAAP)
- Cash generated \$16M; \$9M to cash balance + \$7M stock buy-back



- ▶ **Strategic priority progress**
- ▶ **Key product initiatives**
- ▶ **Corporate leadership changes and additions**



## ▶ **Broadening global customer base**

- Gaining or maintaining market share globally
- Deeper penetration into existing customers
- Adding new customers, especially new media and emerging markets

## ▶ **Extending market leadership**

- IP video wins
- Cable Edge and CCAP initiative progress
- Professional services growth

## ▶ **Operational execution**

- European exposure offset by execution in other geographies
- Cash performance
- Op Ex management



## ▶ **Extending market leadership – IP Video**

- New over-the-top wins
  - Announced deals with Alpha, nowTV and Zon
  - Several additional unannounced Tier 1 wins
- New Telco IPTV wins
  - Converged television + mobile services
- Internet HD trend playing to Harmonic's strengths
  - Video quality, compression and bandwidth management
  - Growing market interest in next generation investment: HEVC, 4k



## **Extending market leadership – Cable Edge**

- EdgeQAM product continues to gain share
  - HD VOD and nPVR
  - Switched digital video
  - Modular CMTS
- Growing positive customer response to CCAP initiative
  - Industry validation of new, open architecture
  - Strong reception to first demonstrations
  - First CCAP platform shipments planned for H1 2013
  - Significant expansion of our addressable market



## ▶ Executive management additions and changes

- Nimrod Ben-Natan, SVP of Edge & Access, CCAP Products
- Krishnan Padmanabhan, SVP of Video Products
- Peter Alexander, SVP, Chief Marketing Officer

## ▶ New board member

- Mitzi Reaugh, Miramax

# Q2 2012: Financial Highlights



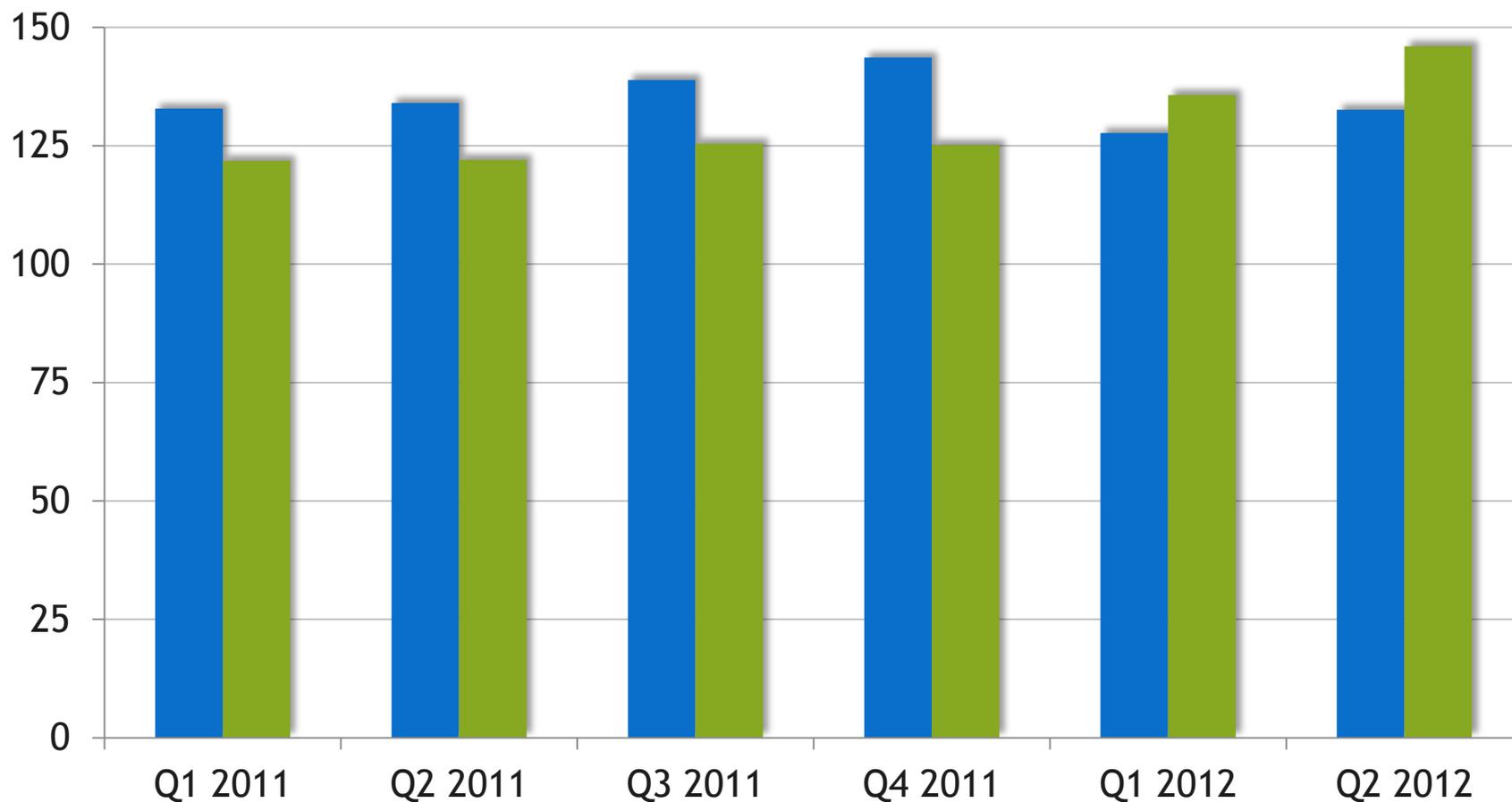
\$Millions (except GM, OM and EPS)	Q2 2012	Q1 2012	Q2 2011	Q2/Q1 Change	Q2 Y/Y Change
Total Net Revenue	\$132.6	\$127.7	\$134.0	4%	(1%)
Gross Margin % - Non-GAAP	48%	47%	51%	100BP	(300BP)
Gross Margin % - GAAP	43%	42%	46%	140BP	(270BP)
Operating Expense - Non-GAAP	\$53.9	\$56.1	\$53.9	(\$2.2)	\$0.0
Operating Margin - Non-GAAP	7%	3%	11%	430BP	(340BP)
EPS - Non-GAAP	\$0.06	\$0.03	\$0.09	\$0.03	(\$0.03)
EPS - GAAP	\$0.00	(\$0.06)	\$0.00	\$0.06	\$0.00
Bookings	\$139.5	\$142.5	\$131.7	(2%)	6%
Backlog and Deferred Revenue	\$146.0	\$135.7	\$122.0	8%	20%

# Quarterly Revenue and Backlog



\$Millions

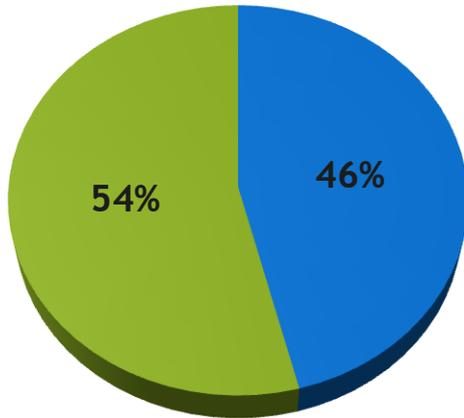
■ Revenue ■ Backlog/Deferred Revenue





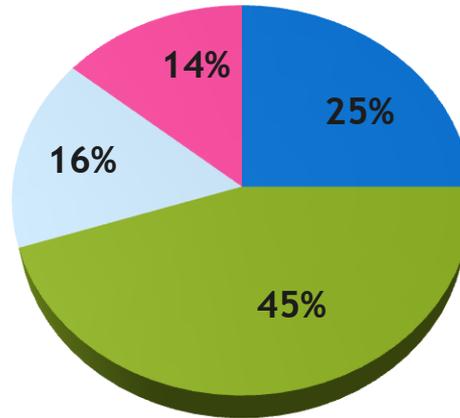
## GEOGRAPHY

International U.S.



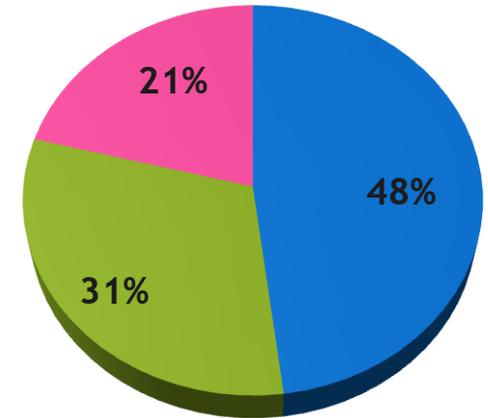
## PRODUCTS

Edge & Access Video Processing  
Product & Playout Services



## MARKETS

Cable Satellite & Telco  
Broadcast & Media





\$Millions, except share data		
Cash	\$177.8	Up \$9.3M from Q1 12
Accounts Receivable	\$102.7	70 days
Inventories	\$68.0	4.1 turns
Debt	\$0	
Capital Expenditures	\$2.9	\$12M-\$18M for 2012
Shares Repurchased	1.6	Approximately \$7M



	Metric
Q3 Revenue	\$130M - \$140M
Non-GAAP Gross Margin*	47.5% - 49.5%
Non-GAAP Operating Expenses*	\$55M - \$56M
Non-GAAP Tax Rate**	25% - 26%
<p>*Excludes charges for stock-based compensation and the amortization of intangibles.  **Assumes no extension to the R&amp;D tax credit</p>	



## ▶ **Solid fundamentals**

- Healthy demand ex-Europe
- Strong competitive position
- Strong cash generation and balance sheet

## ▶ **Compelling growth opportunities**

- IP video
- Next generation CCAP cable edge
- Broadening global customer base

## ▶ **Focused on execution**

- Near-term results
- Strategic development programs
- Leadership team additions



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In establishing operating budgets, managing its business performance, and setting internal measurement targets, the Company excludes a number of items required by GAAP. Management believes that these accounting charges and credits, most of which are non-cash or non-recurring in nature, are not useful in managing its operations and business. Historically, the Company has also publicly presented these supplemental non-GAAP measures in order to assist the investment community to see the Company "through the eyes of management," and thereby enhance understanding of its operating performance. The non-GAAP measures presented here are gross margin, operating expenses, net income and net income per share. The presentation of non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP, and is not necessarily comparable to non-GAAP results published by other companies. A reconciliation of the historical non-GAAP financial measures discussed in this press release to the most directly comparable historical GAAP financial measures is included with the financial statements contained in this presentation. The non-GAAP adjustments described below have historically been excluded from our GAAP financial measures. These adjustments are excess facilities and severance charges and non-cash items, such as stock-based compensation expense, amortization of intangibles, and discrete tax items and adjustments.

# Q2 2012: GAAP to Non-GAAP Reconciliation



	Three months ended					
	June 29, 2012			July 1, 2011		
	Gross Profit	Operating Expense	Net Income	Gross Profit	Operating Expense	Net Income
	(In thousands, except per share amounts)					
GAAP	\$ 57,578	\$ 59,973	\$ 17	\$ 61,828	\$ 60,435	\$ 390
Cost of revenue related to stock-based compensation expense	805	-	805	762	-	762
Research and development expense related to stock-based compensation expense	-	(1,711)	1,711	-	(1,771)	1,771
Selling, general and administrative expense related to stock-based compensation expense	-	(2,186)	2,186	-	(2,559)	2,559
Amortization of intangibles	5,048	(2,190)	7,238	5,491	(2,230)	7,721
Discrete tax items and adjustments	-	-	(4,802)	-	-	(2,717)
Non-GAAP	\$ 63,431	\$ 53,886	\$ 7,155	\$ 68,081	\$ 53,875	\$ 10,486
GAAP net income per share - basic			\$ 0.00			\$ 0.00
GAAP net income per share - diluted			\$ 0.00			\$ 0.00
Non-GAAP net income per share - basic			\$ 0.06			\$ 0.09
Non-GAAP net income per share - diluted			\$ 0.06			\$ 0.09
Shares used in per share calculation - basic			117,056			114,939
Shares used in per share calculation - diluted			117,493			116,298

	Six months ended					
	June 29, 2012			July 1, 2011		
	Gross Profit	Operating Expense	Net Income (Loss)	Gross Profit	Operating Expense	Net Income
	(In thousands, except per share amounts)					
GAAP	\$ 111,240	\$ 122,292	\$ (7,511)	\$ 123,683	\$ 122,377	\$ 906
Cost of revenue related to stock-based compensation expense	1,599	-	1,599	1,509	-	1,509
Research and development expense related to stock-based compensation expense	-	(3,435)	3,435	-	(3,607)	3,607
Selling, general and administrative expense related to stock-based compensation expense	-	(4,468)	4,468	-	(5,978)	5,978
Selling, general and administrative expense related to excess facility costs, severance costs and other non-recurring expenses	-	-	-	-	(409)	409
Amortization of intangibles	10,408	(4,369)	14,777	10,633	(4,459)	16,092
Discrete tax items and adjustments	-	-	(6,461)	-	-	(6,755)
Non-GAAP	\$ 123,247	\$ 110,020	\$ 10,307	\$ 135,825	\$ 107,924	\$ 20,746
GAAP net income (loss) per share - basic			\$ (0.06)			\$ 0.01
GAAP net income (loss) per share - diluted			\$ (0.06)			\$ 0.01
Non-GAAP net income per share - basic			\$ 0.09			\$ 0.18
Non-GAAP net income per share - diluted			\$ 0.09			\$ 0.18
Shares used in per share calculation - basic			117,162			114,387
Shares used in per share calculation - diluted, GAAP			117,162			116,143
Shares used in per share calculation - diluted, non-GAAP			117,851			116,143



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