UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 30, 2011

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File No. 000-25826

HARMONIC INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**77-0201147** **(I.R.S. Employer Identification Number)**

4300 North First Street
San Jose, CA 95134
(408) 542-2500
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's Common Stock, $.001 par value, outstanding on October 28, 2011 was 116,018,310.

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PART I

FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HARMONIC INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2011	December 31, 2010
	(In thousands, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 75,235	$ 96,533
Short-term investments	65,648	23,838
Accounts receivable, net of allowances of $8,544 and $5,897 at September 30, 2011 and December 31, 2010, respectively	116,429	101,652
Inventories	65,155	58,065
Deferred income taxes	39,849	39,849
Prepaid expenses and other current assets	22,133	28,614
Total current assets	384,449	348,551
Property and equipment, net	39,379	39,825
Goodwill	212,443	211,878
Intangibles, net	95,303	118,070
Other assets	1,866	2,062
Total assets	$ 733,440	$ 720,386
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 30,918	$ 26,300
Income taxes payable	655	6,791
Deferred revenue	37,125	46,279
Accrued liabilities	39,761	51,283
Total current liabilities	108,459	130,653
Accrued excess facility costs, long-term	1,334	1,153
Income taxes payable, long-term	49,855	48,883
Deferred income taxes, long-term	12,570	14,849
Other non-current liabilities	7,168	4,645
Total liabilities	179,386	200,183
Commitments and contingencies (Notes 15 and 16)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.001 par value, 150,000 shares authorized; 115,895 and 112,360 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	116	112
Capital in excess of par value	2,427,000	2,397,671
Accumulated deficit	(1,872,416)	(1,876,868)
Accumulated other comprehensive loss	(646)	(712)
Total stockholders' equity	554,054	520,203
Total liabilities and stockholders' equity	$ 733,440	$ 720,386

The accompanying notes are an integral part of these condensed consolidated financial statements.

HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except per share amounts)			
Product revenue	$ 121,954	$ 90,597	$ 354,977	$ 249,292
Service revenue	16,917	14,187	50,725	35,857
Net revenue	138,871	104,784	405,702	285,149
Product cost of revenue	62,257	50,305	181,690	133,208
Service cost of revenue	7,207	4,233	20,289	11,044
Amortization of intangibles	5,446	2,714	16,079	6,878
Total cost of revenue	74,910	57,252	218,058	151,130
Gross profit	63,961	47,532	187,644	134,019
Operating expenses:				
Research and development	25,638	19,002	77,449	52,946
Selling, general and administrative	32,254	25,999	98,361	70,917
Amortization of intangibles	2,229	959	6,688	2,026
Total operating expenses	60,121	45,960	182,498	125,889
Income from operations	3,840	1,572	5,146	8,130
Interest income, net	90	165	256	974
Other income (expense), net	381	(405)	(25)	(903)
Income before income taxes	4,311	1,332	5,377	8,201
Provision for (benefit from) income taxes	765	1,693	925	(1,202)
Net income (loss)	$ 3,546	$ (361)	$ 4,452	$ 9,403
Net income (loss) per share:				
Basic	$ 0.03	$ (0.00)	$ 0.04	$ 0.10
Diluted	$ 0.03	$ (0.00)	$ 0.04	$ 0.10
Weighted average shares:				
Basic	115,791	100,246	114,855	97,975
Diluted	116,208	100,246	116,005	98,672

The accompanying notes are an integral part of these condensed consolidated financial statements.

HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended	
	September 30, 2011	October 1, 2010
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 4,452	$ 9,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangibles	22,767	8,904
Depreciation	10,306	6,696
Stock-based compensation	16,099	10,180
Net loss on disposal of fixed assets	450	73
Deferred income taxes	(2,218)	(57)
Other non-cash adjustments, net	564	1,344
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(14,783)	(10,531)
Inventories	(7,157)	(11,088)
Prepaid expenses and other assets	7,176	(1,786)
Accounts payable	5,117	(1,898)
Deferred revenue	(9,610)	994
Income taxes payable	(5,927)	(104)
Accrued excess facility costs	120	(5,230)
Accrued and other liabilities	(6,967)	(5,688)
Net cash provided by operating activities	20,389	1,212
Cash flows from investing activities:		
Purchases of investments	(76,164)	(39,035)
Proceeds from maturities of investments	15,522	83,689
Proceeds from sales of investments	18,248	32,609
Acquisition of property and equipment	(12,373)	(29,837)
Acquisition of Omneon, net of cash acquired	—	(153,254)
Other acquisitions	(250)	—
Net cash used in investing activities	(55,017)	(105,828)
Cash flows from financing activities:		
Proceeds from lease financing liability	—	18,833
Proceeds from issuance of common stock, net	13,301	3,918
Net cash provided by financing activities	13,301	22,751
Effect of exchange rate changes on cash and cash equivalents	29	(89)
Net decrease in cash and cash equivalents	(21,298)	(81,954)
Cash and cash equivalents at beginning of period	96,533	152,477
Cash and cash equivalents at end of period	$ 75,235	$ 70,523
Supplemental disclosures of cash flow information:		
Income tax payments, net	$ 7,630	$ 984
Non-cash investing and financing activities:		
Issuance of restricted common stock in Omneon acquisition	—	95,938
Fair value of vested portion of stock options and restricted stock units assumed in Omneon acquisition	—	2,125

The accompanying notes are an integral part of these condensed consolidated financial statements.

HARMONIC INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) which Harmonic Inc. ("Harmonic," or the "Company") considers necessary for a fair statement of the results of operations for the interim periods covered and the consolidated financial condition of the Company at the date of the balance sheets. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited consolidated financial statements contained in the Company's Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 1, 2011 ("2010 Form 10-K"). The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2011, or any other future period. The Company's fiscal quarters are based on 13-week periods, except for the fourth quarter which ends on December 31.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("US GAAP").

Use of Estimates. The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Accounting Policies. The Company's significant accounting policies are described in Note 1 to its audited Consolidated Financial Statements included in its 2010 Form 10-K. With the exception of revenue recognition discussed below, there have been no significant changes to these policies and no recently adopted accounting pronouncements or changes in accounting pronouncements, during the nine months ended September 30, 2011, that are of significance or potential significance to the Company.

Revenue Recognition. Harmonic's principal sources of revenue are from hardware products, software products, solution sales, services, and hardware and software maintenance contracts. Harmonic recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured.

Revenue from product sales, excluding the revenue generated from service-related solutions, which is discussed below, is recognized when risk of loss and title have transferred, which is generally upon shipment or delivery, or once all applicable revenue recognition criteria have been met. Allowances are provided for estimated returns and discounts. Such allowances are adjusted periodically to reflect actual and anticipated experience.

In October 2009, the Financial Accounting Standards Board (FASB) amended US GAAP for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. US GAAP for multiple deliverable revenue arrangements were also amended to:

- provide updated guidance on how deliverables in a multiple element arrangement should be separated and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using the best estimate of selling price (BESP) if a vendor does not have vendor-specific objective evidence (VSOE) of selling price or third-party evidence of selling price (TPE); and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

Harmonic elected to adopt this accounting guidance prospectively, beginning with the quarter ended April 1, 2011, for applicable transactions originating or materially modified after December 31, 2010. Certain of Harmonic's hardware products contain software components that function together to provide the essential functionality of the product. Therefore, such product sales are removed from the industry-specific software revenue recognition guidance and, instead, are governed by the amended guidance described above.

For product sales subject to the amended guidance, the Company allocates the arrangement consideration to each unit of accounting on the basis of each such products' relative selling price (the "relative selling price method"). When applying the relative selling price method, the Company first considers VSOE of the selling price, if it exists; otherwise TPE of the selling price. If neither VSOE nor TPE exists for a deliverable, the Company uses BESP for that deliverable.

Harmonic has established VSOE for certain elements of its arrangements based on either historical stand-alone sales to third parties or stated renewal rates for maintenance. The Company has VSOE of fair value for maintenance, training and certain professional services.

TPE is determined based on competitor prices for similar deliverables when sold separately. The Company is typically not able to determine TPE for competitors' products or services. Generally, the Company's go-to-market strategy differs from that of its competitors' and the Company's offerings contain a significant level of differentiation, such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine what competitor similar products' selling prices are on a stand-alone basis.

When the Company is unable to establish fair value of non-software deliverables using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of using BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company determines BESP for a product or service by considering multiple factors, including, but not limited to, pricing practices, market conditions, competitive landscape, internal costs, geographies and gross margin. The determination of BESP is made through consultation with Company's management, taking into consideration the Company's go-to-market strategy.

The Company regularly reviews BESP and maintains internal controls over establishing and updating these estimates. There has been no material impact during the current quarter, and the Company does not anticipate a material impact in the near term, from changes in BESP. However, the Company may modify pricing practices in the future, which could result in changes in selling prices, including BESP. Accordingly, the impact on future revenue recognition for multiple deliverable arrangements could differ materially from the results in the current period.

Total revenue, as reported, and pro forma total revenue that would have been reported for the three and nine months ended September 30, 2011 if the transactions entered into after December 31, 2010 had been subject to previous accounting guidance, are shown in the following table:

	Three months ended September 30, 2011		Nine months ended September 30, 2011	
	As Reported	Pro Forma	As Reported	Pro Forma
	(In thousands)			
Net revenue	$ 138,871	$ 132,026	$ 405,702	$ 393,565

The impact of the revised accounting guidance on net revenue during the three and nine months ended September 30, 2011 was attributable to the ability to assign a relative selling price to undelivered elements, which previously required VSOE (such as undelivered firmware updates on hardware products), and the reallocation of consideration from revenue deliverables.

Sales of stand-alone software that are not considered essential to the functionality of the hardware continue to be subject to the industry-specific software revenue recognition guidance. The Company uses the residual method to recognize revenue for the delivered elements in stand-alone software transactions. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration, less the aggregate fair value of any undelivered elements, typically maintenance, provided that VSOE of fair value exists for all undelivered elements. VSOE of fair value is based on the price charged when the element is sold separately or substantive renewal rates for maintenance.

Solution sales for the design, manufacture, test, integration and installation of products, including equipment acquired from third parties to be integrated with Harmonic's products, that are customized to meet the customer's specifications are accounted for in accordance with applicable guidance on accounting for performance of construction/production contracts. Accordingly, for each arrangement that the Company enters into that includes both products and services, the Company performs a detailed evaluation to determine whether the arrangement should be accounted for under guidance for construction/production contracts or, alternatively, for arrangements that do not involve significant production, modification or customization, under other applicable accounting guidance. The Company has a long-standing history of entering into contractual arrangements to deliver the solution sales described above and such arrangements represent a material part of the operations of the Company.

At the outset of each arrangement accounted for as a single arrangement, the Company develops a detailed project plan and associated labor hour estimates for each project. The Company believes that, based on its historical experience, it has the ability to make labor cost estimates that are sufficiently dependable to justify the use of the percentage-of-completion method of accounting and, accordingly, utilizes percentage-of-completion accounting for most arrangements that are determined to be single arrangements. Under the percentage-of-completion method, revenue recognized reflects the portion of the anticipated contract revenue that has been earned, equal to the ratio of actual labor hours expended to total estimated labor hours to complete the project. For contracts that include customized services for which labor costs are not reasonably estimable, the Company uses the completed contract method of accounting. Under the completed contract method, 100% of the contract's revenue is recognized upon the completion of all services under the contract. If the estimated costs to complete a project exceed the total contract amount, indicating a loss, the entire anticipated loss is recognized.

Maintenance services are recognized straight-line over the maintenance term, which is typically one year. The unrecognized revenue portion of maintenance agreements billed is recorded as deferred revenue. The costs associated with services are recognized as incurred.

Deferred revenue includes billings in excess of revenue recognized, net of deferred cost of revenue, and invoiced amounts remain deferred until applicable revenue recognition criteria are met.

Revenue from distributors and system integrators is recognized on delivery of the related products, provided all other revenue recognition criteria have been met. The Company's agreements with these distributors and system integrators have terms which are generally consistent with the standard terms and conditions for the sale of the Company's equipment to end users and do not provide for product rotation or pricing allowances, as are typically found in agreements with stocking distributors. The Company accrues for sales returns and other allowances based on its historical experience.

Shipping and handling costs incurred for inventory purchases and product shipments are recorded in cost of revenue in the Company's Consolidated Statements of Operations.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued additional guidance on fair value disclosures. This guidance contains certain updates to the measurement guidance, as well as enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for "Level 3" measurements, including enhanced disclosure for: (1) the valuation processes used by the reporting entity; and (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. This guidance is effective for interim and annual periods beginning on or after December 15, 2011 and early adoption is prohibited. The Company does not expect the adoption of these reporting requirements to have a material impact on its consolidated results of operations or financial condition.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives; present items of net income and other comprehensive income in (1) one continuous statement, referred to as the statement of comprehensive income, or (2) in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective for interim and annual periods beginning on or after December 15, 2011 and early adoption is permitted. Full retrospective application is required under both presentation alternatives. The Company is currently evaluating which presentation alternative it will utilize.

In September 2011, the FASB approved an accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step annual goodwill impairment test. An entity is required to perform step one only if the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2012 and early adoption is permitted.

NOTE 3: OMNEON ACQUISITION

On September 15, 2010, Harmonic completed the acquisition of 100% of the equity interests of Omneon, Inc., a privately-held company organized under the laws of Delaware and headquartered in Sunnyvale, California. Omneon develops and supports a range of video servers, active storage systems and related software applications that media companies use to simultaneously ingest, process, store, manage and deliver digital media in a wide range of formats. When used for television production and on-air operations, the products are designed to provide continuous real-time record and playback capabilities, as well as file-based access to, and delivery of, digital media content. Omneon's products include Spectrum video servers, MediaGrid active storage systems, Media Application servers and other software applications that were initially designed for, and have been deployed mostly by, broadcasters that use Omneon's products for the production and transmission of television content.

The acquisition of Omneon was intended to strengthen Harmonic's competitive position in the digital media market and to broaden the Company's relationships with customers that produce and distribute digital video content, such as broadcasters, satellite operators, content owners and other media companies. The acquisition was also intended to broaden Harmonic's technology and product lines with digital storage and playout solutions that complement Harmonic's existing video processing products. In addition, the acquisition provided an assembled workforce and the implicit value of future cost savings as a result of combining entities, and was expected to provide Harmonic with future, but then unidentified, new products and technologies. These opportunities were significant factors to the establishment of the purchase price, which exceeded the fair value of Omneon's net tangible and intangible assets acquired, resulting in goodwill of approximately $147.8 million that was recorded in connection with this acquisition.

The purchase price, net of $40.5 million of cash acquired, was $251.3 million, which consisted of (i) approximately $153.3 million in cash, net of cash acquired, (ii) 14.2 million shares of Harmonic common stock with a total fair value of approximately $95.9 million, based on the price of Harmonic common stock at the time of close, and (iii) approximately $2.1 million, representing the fair value attributed to shares of Omneon equity awards which Harmonic assumed and for which services had already been rendered as of the close of the acquisition. The cash portion of the purchase price was paid from existing cash balances. The Company also incurred a total of $5.9 million of transaction expenses, which were expensed as selling, general and administrative expenses in the year ended December 31, 2010.

The assets and liabilities of Omneon shown in the purchase price allocation below were recorded at fair value at the date of acquisition. The Company has continued to evaluate certain assets and liabilities as new information was obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. Changes to the assets and liabilities recorded resulted in a corresponding adjustment to goodwill. The measurement period for such changes terminated one year from the acquisition date. Further, any associated restructuring activities will be expensed in future periods and not recorded through purchase accounting as previously done under prior accounting guidance. There are no contingent consideration arrangements in connection with the acquisition.

The results of operations of Omneon are included in Harmonic's Consolidated Statements of Operations from September 15, 2010, the date of acquisition. The following table summarizes the final allocation of the purchase price based on the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

		(In thousands)
Cash acquired		$ 40,485
Accounts receivable (Gross amount due from accounts receivable of $17,760)		17,055
Inventory		11,010
Fixed assets		12,093
Deferred income tax assets		18,021
Other tangible assets acquired		3,294
Intangible assets:		
Existing technology	$50,800	
In-process technology	9,000	
Patents/core technology	9,800	
Customer contracts and related relationships	29,200	
Trademarks and tradenames	4,000	
Maintenance agreements and related relationships	5,500	
Order backlog	800	
		109,100
Goodwill		147,750
Total assets acquired		358,808
Accounts payable		(6,829)
Deferred revenue		(6,399)
Deferred income tax liabilities		(42,575)
Other accrued liabilities		(11,203)
Net assets acquired		291,802
Less: cash acquired		(40,485)
Net purchase price		$251,317

The purchase price set forth in the table above was allocated based on the fair value of the tangible and intangible assets acquired, and liabilities assumed, as of September 15, 2010. The Company used an overall discount rate of 15% to estimate the fair value of the intangible assets acquired, which was derived based on financial metrics of comparable companies operating in Omneon's industry. In determining the appropriate discount rates to use in valuing each of the individual intangible assets, the Company adjusted the overall discount rate giving consideration to the specific risk factors of each asset. The following methods were used to value the identified intangible assets:

- The fair value of the existing technology assets acquired was established based on their highest and best use by a market participant using the "Income Approach." The Income Approach included an analysis of the markets, cash flows and risks associated with achieving such cash flows to calculate the fair value;
- As of the acquisition date, Omneon was developing new versions and incremental improvements to its 3G MediaPort product, which was expected to be used in the Spectrum product line, once completed. The in-process project was at a stage of development that required further research and development to determine technical feasibility and commercial viability. The fair value of the in-process technology assets acquired was based on the valuation premise that the assets would be "In-Use" using a discounted cash flow model;
- The fair value of patents/core technology assets acquired was established based on a variation of the Income Approach called the "Profit Allocation Method". In the Profit Allocation Method, we estimated the value of the patents/core technology by capitalizing the profits expected to be saved because Harmonic owns the technology;
- The fair value of the customer contracts and related relationships assets acquired was based on the Income Approach;
- The fair value of trade names/trademarks assets acquired was established based on the Profit Allocation Method;
- The fair value of the maintenance agreements and related relationships assets acquired was based on the Income Approach; and
- The fair value of backlog acquired was established based on the Income Approach.

Identified intangible assets are being amortized over the following useful lives:

- Existing technology is being amortized over its estimated useful life of four years;
- In-process technology is being amortized, upon completion, over its projected remaining useful life, as assessed on the completion date. The completion of the in-process project was in the first quarter of 2011. The completed technology was estimated to have a useful life of four years;
- Patents/core technology are being amortized over their estimated useful life of four years;
- Customer contracts and related relationships are being amortized over their estimated useful life of six years;
- Trade names/trademarks are being amortized over their estimated useful life of four years;
- Maintenance agreements and related relationships are being amortized over their estimated useful life of six years; and
- Order backlog was amortized over its estimated useful life of three and one half months.

The existing technology, patents/core technology, customer contracts and related relationships, maintenance agreements and related relationships, trade names/trademarks and backlog are amortized using the straight-line method, which reflects future projected cash flows.

The residual purchase price of $147.8 million has been recorded as goodwill. The goodwill resulting from this acquisition is not deductible for federal tax purposes.

Substantially all unvested stock options and unvested restricted stock units issued by Omneon and outstanding at closing were assumed by Harmonic. The exchange of stock-based compensation awards was treated as a modification under current accounting guidance. The calculation of the fair value of the exchanged awards immediately before and after the modification did not result in any significant incremental fair value. The fair value of Harmonic's stock options and restricted stock units issued to Omneon employees was $17.3 million, which was determined using the Black-Scholes option pricing model, of which $2.1 million represents purchase consideration and $15.2 million will be recorded as compensation expense over the weighted average service period of 2.5 years.

Pro Forma Financial Information

The unaudited pro forma financial information presented below for the three and nine months ended October 1, 2010 summarizes the combined results of operations as if the Omneon acquisition had been completed on January 1, 2010. The unaudited pro forma financial information for the three and nine months ended October 1, 2010 combines the results for Harmonic for the three and nine months ended October 1, 2010 and the historical results of Omneon for the three and nine months ended September 30, 2010.

The pro forma financial information is presented for informational purposes only and does not purport to be indicative of what would have occurred had the merger actually been completed on such date or of results which may occur in the future.

	Three months ended October 1, 2010	Nine months ended October 1, 2010
	(In thousands, except per share amounts)	
Net revenue	$ 128,198	$ 368,709
Net loss	(2,852)	(4,940)
Net loss per share - basic and diluted	(0.03)	(0.04)

NOTE 4: FAIR VALUE

The applicable accounting guidance establishes a framework for measuring fair value and expands required disclosure about the fair value measurements of assets and liabilities. This guidance requires the Company to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a nonrecurring basis in periods subsequent to initial measurement, in a three-tier fair value hierarchy as described below.

The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes three levels of inputs that may be used to measure fair value:

- Level 1 — Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.
- Level 2 — Observable inputs other than Level 1 prices, such as: quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company primarily uses broker quotes for valuation of its short-term investments.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company uses the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. During the nine months ended September 30, 2011, there were no nonrecurring fair value measurements of assets and liabilities subsequent to initial recognition.

The following table sets forth the fair value of the Company's financial assets measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, based on the three-tier fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
September 30, 2011				
Cash equivalents:				
Money market funds	$45,256	$ —	$ —	$ 45,256
Short-term investments:				
State, municipal and local government agencies bonds	—	34,167	—	34,167
Corporate bonds	—	18,297	—	18,297
U.S. federal government bonds	—	8,586	—	8,586
Commercial paper	—	4,598	—	4,598
Total	$45,256	$65,648	$ —	$110,904
December 31, 2010				
Cash equivalents:				
Money market funds	$68,395	$ —	$ —	$ 68,395
Short-term investments:				
State, municipal and local government agencies bonds	—	11,931	—	11,931
Corporate bonds	—	11,907	—	11,907
Total	$68,395	$23,838	$ —	$ 92,233

At September 30, 2011 and December 31, 2010, maturities of short-term investments are as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Short-term investments:		
Less than one year	$ 37,888	$ 21,174
Due in 1 - 2 years	11,555	2,664
Due in 3 - 30 years (1)	16,205	—
Total short-term investments	$ 65,648	$ 23,838

(1) Represents the final maturity of variable rate demand notes. These securities have a put right on the part of the Company which allows the Company to put the security to the issuer, generally within a month of the balance sheet date. Should the Company exercise its put option on the put date, it is entitled to receive the par value of the security plus any accrued interest.

The following is a summary of available-for-sale securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
September 30, 2011				
State, municipal and local government agencies bonds	$34,135	$ 37	$ (5)	$ 34,167
Corporate bonds	18,321	—	(24)	18,297
U.S. federal government bonds	8,584	3	(1)	8,586
Commercial paper	4,598	—	—	4,598
Total	$65,638	$ 40	$ (30)	$ 65,648
December 31, 2010				
State, municipal and local government agencies bonds	$11,915	$ 20	$ (4)	$ 11,931
Corporate bonds	11,894	20	(7)	11,907
Total	$23,809	$ 40	$ (11)	$ 23,838

Impairment of Investments

Harmonic monitors its investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. In order to determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value; the Company's financial condition and business outlook, including key operational and cash flow metrics, current market conditions and future trends in the industry; and the Company's relative competitive position within the industry. At the present time, the Company does not intend to sell its investments that have unrealized losses included in accumulated other comprehensive loss. In addition, the Company does not believe that it is more likely than not that it will be required to sell its investments that have unrealized losses included in accumulated other comprehensive loss before the Company recovers the principal amounts invested. The Company believes that the unrealized losses are temporary and do not require an other-than-temporary impairment, based on our evaluation of available evidence as of September 30, 2011.

As of September 30, 2011, there were no individual available-for-sale securities in a material unrealized loss position and the amount of unrealized losses on the total investment balance was insignificant.

NOTE 5: INVENTORIES

The following is a summary of inventory as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
	(In thousands)	
Inventories:		
Raw materials	$ 12,857	$ 10,378
Work-in-process	4,159	2,324
Finished goods	48,139	45,363
	$ 65,155	$ 58,065

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NOTE 6: GOODWILL AND IDENTIFIED INTANGIBLES

The following is a summary of goodwill and intangible assets as of September 30, 2011 and December 31, 2010:

	September 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Identifiable intangibles:						
Existing and core technology	$ 136,163	$ (76,545)	$ 59,618	$ 127,146	$ (60,453)	$ 66,693
In-process technology	—	—	—	9,000	—	9,000
Customer relationships/contracts	67,099	(40,637)	26,462	67,098	(36,117)	30,981
Trademarks and tradenames	11,364	(7,293)	4,071	11,361	(6,060)	5,301
Supply agreements	3,419	(3,419)	—	3,414	(3,414)	—
Maintenance agreements and related relationships	7,100	(1,948)	5,152	7,100	(1,008)	6,092
Software license, intellectual property and assembled workforce	309	(309)	—	309	(306)	3
Order backlog	2,800	(2,800)	—	2,800	(2,800)	—
Subtotal of identifiable intangibles	228,254	(132,951)	95,303	228,228	(110,158)	118,070
Goodwill	212,443	—	212,443	211,878	—	211,878
Total goodwill and other intangibles	$ 440,697	$(132,951)	$ 307,746	$ 440,106	$(110,158)	$ 329,948

The changes in the carrying amount of goodwill for the nine months ended September 30, 2011 are as follows:

	(In thousands)
Balance at December 31, 2010	$ 211,878
Adjustment to deferred tax asset associated with the acquisition of Omneon	(527)
Adjustment to income tax payable associated with the acquisition of Omneon	771
Adjustment to fixed assets associated with the acquisition of Omneon	298
Foreign currency translation adjustment	23
Balance at September 30, 2011	$ 212,443

For the three and nine months ended September 30, 2011, the Company recorded a total of $7.7 million and $22.8 million of amortization expense for identified intangibles, of which $5.4 million and $16.1 million was included in cost of revenue, respectively. For the three and nine months ended October 1, 2010, the Company recorded a total of $3.7 million and $8.9 million of amortization expense for identified intangibles, of which $2.7 million and $6.9 million was included in cost of revenue, respectively. The estimated future amortization expense of purchased intangible assets with definite lives is as follows:

	Cost of Revenue	Operating Expenses	Total
	(In thousands)		
Years ending December 31,			
2011 (remaining 3 months)	$ 5,423	$ 2,219	$ 7,642
2012	20,504	8,715	29,219
2013	19,232	8,096	27,328
2014	13,745	6,775	20,520
2015	714	5,783	6,497
2016	—	4,097	4,097
Total	$ 59,618	$35,685	$95,303

NOTE 7: RESTRUCTURING AND EXCESS FACILITIES

In the fourth quarter of 2010, the Company recorded an excess facilities expense of $3.0 million in selling, general and administrative expenses related to the closure of the Omneon headquarters in Sunnyvale, California. The charge was based on future rent payments, net of expected sublease income, to be made through the end of the lease term in June 2013. In the first quarter of 2011, the Company recorded an additional expense of $0.5 million in selling, general and administrative expenses related to changes in expected sublease income for this property. Harmonic reassesses this liability quarterly and adjusts it, as necessary, based on changes in the timing and amounts of expected sublease rental income.

As of September 30, 2011, accrued excess facilities costs totaled $3.0 million, of which $1.7 million was included in current accrued liabilities. During the nine months ended September 30, 2011, the Company incurred cash outlays of $1.4 million related to vacated facilities, principally for lease payments, property taxes, insurance and other maintenance fees, and received sublease income of $1.1 million.

The following table summarizes the activity in the restructuring accrual during the nine months ended September 30, 2011:

	Excess Facilities
	(In thousands)
Balance at December 31, 2010	$ 2,920
Provisions	517
Sublease income	1,050
Cash payments	(1,447)
Balance at September 30, 2011	$ 3,040

NOTE 8: CREDIT FACILITIES

Harmonic has a bank line of credit facility with Silicon Valley Bank, which provides for borrowings of up to $10.0 million and matures on August 25, 2012. As of September 30, 2011, other than standby letters of credit and guarantees (Note 15), there were no amounts outstanding under the line of credit facility and there were no borrowings in the nine months ended September 30, 2011. This facility, which became effective in August 2011, contains a financial covenant that requires Harmonic to maintain a ratio of unrestricted cash, accounts receivable and short term investments to current liabilities (less deferred revenue) of at least 1.75 to 1.00. As of September 30, 2011, the Company's ratio under that covenant was 3.61 to 1. In the event of noncompliance by Harmonic with the covenants under the facility, including the financial covenant referenced above, Silicon Valley Bank would be entitled to exercise its remedies under the facility, including declaring all obligations immediately due and payable. At September 30, 2011, Harmonic was in compliance with the covenants under the line of credit facility. Future borrowings pursuant to the line would bear interest at the bank's prime rate (3.25% at September 30, 2011) or LIBOR for the desired borrowing period (an annualized rate of 0.24% for a one month borrowing period at September 30, 2011) plus 1.75%. Borrowings are not collateralized.

NOTE 9: FINANCING LIABILITY FOR CONSTRUCTION IN PROGRESS

The lease for the buildings at the Company's Sunnyvale, California location ended in September 2010. In December 2009, the Company entered into a lease for a building in San Jose, California, which was intended to become the Company's new headquarters. In January 2010, the Company began a build-out of this facility and during the construction incurred approximately $18.9 million in structural leasehold improvements. Under the terms of the lease, the landlord reimbursed $18.8 million of the construction costs.

Because certain improvements constructed by the Company were considered structural in nature and the Company was responsible for any cost overruns, the Company was considered to be the owner of the construction project for accounting purposes under applicable accounting guidance on the effect of lessee involvement in asset construction.

As a result, in December 2009 the Company capitalized the fair value of the building of $6.9 million with a corresponding credit to financing liability. The fair value was determined as of December 31, 2009, using a combination of the revenue comparison approach and the income capitalization approach. During the year ended December 31, 2010, the liability increased by $18.9 million due to additional structural leasehold improvements, by $0.2 million due to land lease expense and by $0.2 million due to capitalized interest expense.

Construction was completed in September 2010, at which time the Company relocated to the new building. Upon completion of construction in September 2010, the Company concluded that it qualified for sale-leaseback accounting under applicable accounting guidance because the Company has no form of continuing involvement other than under its lease. Accordingly, the Company removed from its books the carrying value of the building, the structural leasehold improvements and the financing liability.

NOTE 10: BENEFIT PLANS

Stock Based Incentive Plans. The Company has three active stock based incentive plans; the 1995 Stock Plan (the “Stock Plan”), the 2002 Director Stock Plan (the “Director Plan”), and the Employee Stock Purchase Plan (the “ESPP”). As of September 30, 2011, (a) an aggregate of 18,932,442 shares of common stock are reserved for issuance under the Stock Plan, 8,135,756 of which remained available for grant, 7,076,428 of which were subject to outstanding stock option grants and 3,720,258 of which were restricted stock units (“RSUs”) subject to vesting, (b) an aggregate of 619,162 shares of common stock are reserved for issuance under the Director Plan, 163,317 of which remained available for grant, 380,000 of which were subject to outstanding stock option grants and 75,845 of which were RSUs subject to vesting, and (c) an aggregate of 2,829,786 shares of common stock are reserved for issuance under the ESPP. In addition, the Company has various inactive stock based incentive plans, such as the assumed Omneon plans described below. As of September 30, 2011, an aggregate of 1,864,091 shares of common stock are reserved for issuance under the inactive plans, 1,603,915 of which were subject to outstanding stock option grants and 260,176 of which were RSUs subject to vesting.

Stock Plan. Under the Stock Plan, both stock options and RSUs may be granted to employees and consultants of Harmonic. Stock options have a maximum term of seven years and generally vest 25% at one year from date of grant and an additional 1/48 per month thereafter. Stock options are granted with exercise prices equal to the fair market value of the common stock at the date of grant. Restricted stock units (“RSUs”) have no exercise price and generally vest over four years, with 25% vesting at one year from date of grant or the vesting commencement date chosen for the award and either an additional 1/16 per quarter or 1/8 semiannually thereafter. Each award of options or RSUs with an exercise price below 100% of the fair market value on the grant date (or no exercise price, in the case of RSUs) would decrease the Stock Plan reserve 1.5 shares for every unit or share granted and any forfeitures of these awards due to their not vesting would increase the Stock Plan reserve by 1.5 shares for every unit or share forfeited. In the nine months ended September 30, 2011, 1,856,000 RSUs, with an aggregate grant date fair value of $16.8 million, were granted to employees. In the nine months ended October 1, 2010, 1,637,000 RSUs, with an aggregate grant date fair value of $10.3 million, were granted to employees. Certain stock option and RSU awards provide for accelerated vesting if there is a change in control and a subsequent involuntary termination of the award holder.

Upon acquisition of Omneon in September 2010, the Company assumed substantially all unvested stock options and RSUs outstanding, as of the date of closing, under Omneon’s 1998 Stock Option Plan and 2008 Equity Incentive Plan, resulting in the assumption of stock options to purchase approximately 1,522,000 shares of Harmonic common stock and the assumption of RSUs for 1,455,000 shares of Harmonic common stock. The exchange of stock-based compensation awards was treated as a modification under current accounting guidance. The calculation of the fair value of the exchanged awards immediately before and after the modification did not result in any significant incremental fair value. The fair value of Harmonic’s stock options and RSUs issued to Omneon employees was $17.3 million, which was determined using the Black-Scholes option pricing model, of which $2.1 million represents purchase consideration and $15.2 million will be recorded as compensation expense over the weighted average service period of 2.5 years from the September 15, 2010 closing date.

Director Plan. In May 2002, Harmonic’s stockholders approved the Director Plan. Under the Director Plan, both non-statutory stock options and RSUs may be granted to certain non-employee directors of Harmonic. Each award of RSUs would decrease the Director Plan reserve 1.5 shares for every unit granted and any forfeitures of unvested RSUs would increase the Director Plan reserve by 1.5 shares for every unit forfeited. RSUs have no exercise price and vest either after one year from the grant date or on the vesting date chosen for such award. Stock options are granted at the fair market value of the common stock on the date of grant and have a maximum term of seven years. Initial option grants generally vest monthly over three years, and subsequent grants generally vest monthly over one year. In the nine months ended September 30, 2011, 75,845 RSUs, with an aggregate grant date fair value of $0.7 million, were granted to non-employee directors. In the nine months ended October 1, 2010, 87,367 RSUs, with an aggregate grant date fair value of $0.5 million, were granted to non-employee directors.

A summary of share-based award activity under all stock based plans during the nine months ended September 30, 2011 is as follows:

	Shares Available for Grant
	(In thousands)
Balance at December 31, 2010	10,449
Options granted	(913)
Restricted stock units granted	(2,784)
Options cancelled	556
Restricted stock units cancelled	951
Options expired	40
Balance at September 30, 2011	8,299

The following table summarizes RSU activity under all stock based plans during the nine months ended September 30, 2011:

	RSU's Outstanding	Weighted Average Fair Value Per Share	Aggregate Fair Value (1)
	(In thousands, except per share data)		
Balance at December 31, 2010	4,507	$ 6.43	
Restricted stock units granted	1,856	9.03	
Restricted stock units vested	(1,212)	6.40	$ 9,846
Restricted stock units cancelled	(1,095)	7.00	
Balance at September 30, 2011	4,056	7.47	

(1) Represents the fair value of Harmonic common stock on the date that each of the restricted stock units vested. On the grant date, the fair value for these awards was $7.8 million.

The following table summarizes stock option activity under all stock based plans during the nine months ended September 30, 2011:

	Stock Options Outstanding	Weighted Average Exercise Price Per Option
	(In thousands, except per option data)	
Balance at December 31, 2010	11,020	$ 6.90
Options granted	913	9.20
Options exercised	(1,748)	6.26
Options cancelled	(721)	7.83
Options expired	(404)	9.25
Balance at September 30, 2011	9,060	7.08
Options vested and exercisable at September 30, 2011	6,592	
Options vested and expected-to-vest at September 30, 2011	8,955	

The weighted-average fair value of options granted for the nine months ended September 30, 2011 and October 1, 2010 was $4.34 and $4.18, respectively.

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The following table summarizes information regarding stock options outstanding at September 30, 2011:

	Stock Options Outstanding			Stock Options Exercisable	
	Number Outstanding at September 30, 2011	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price Per Option	Number Exercisable at September 30, 2011	Weighted Average Exercise Price Per Option
			(In thousands, except per option data)		
Range of Exercise Prices					
$ 0.19 - 4.80	1,332	6.3	$ 2.61	765	$ 2.60
4.84 - 5.87	1,636	3.2	5.70	1,293	5.70
5.88 - 8.12	1,032	4.6	6.65	558	6.72
8.17 - 8.17	1,845	3.4	8.17	1,569	8.17
8.20 - 8.65	1,297	2.4	8.25	1,286	8.25
8.69 - 9.69	1,336	4.8	9.39	542	9.04
9.74 - 13.67	582	1.0	10.55	579	10.55
	9,060	3.8	$ 7.08	6,592	$ 7.21

The weighted-average remaining contractual life for all exercisable stock options at September 30, 2011 was 3.0 years. The weighted-average remaining contractual life of all vested and expected-to-vest stock options at September 30, 2011 was 3.8 years. The weighted-average remaining vesting period of all expected-to-vest RSUs at September 30, 2011 was 1.3 years.

Aggregate intrinsic value of options exercisable at September 30, 2011 was $1.3 million. The aggregate intrinsic value of stock options vested and expected-to-vest, net of estimated forfeitures, was $2.2 million at September 30, 2011. Aggregate intrinsic value represents the difference between our closing price on the last trading day of the fiscal period, which was $4.26 as of September 30, 2011, and the exercise price multiplied by the number of options outstanding and exercisable. The intrinsic value of exercised stock options is calculated based on the difference between the exercise price and the market value of the common stock at the time of exercise. The aggregate intrinsic value of exercised stock options during the nine months ended September 30, 2011 was $5.1 million.

ESPP. In May 2002, Harmonic’s stockholders approved the ESPP. In June 2011, Harmonic’s stockholders approved an amendment to the ESPP which increased by 2.0 million shares the maximum number of shares authorized under the ESPP. The ESPP enables employees to purchase shares at 85% of the fair market value of the common stock at the beginning or end of each six month offering period, whichever is lower. Offering periods generally begin on the first trading day on or after January 1 and July 1 of each year. The ESPP is intended to qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code. During the nine months ended September 30, 2011 and October 1, 2010, the number of shares of stock issued under the ESPP was 945,287 and 864,800, at weighted average prices of $5.54 and $4.90, respectively. The weighted-average fair value of each right to purchase shares of common stock granted under the ESPP during the nine months ended September 30, 2011 and October 1, 2010 was $2.02 and $1.70, respectively.

Retirement/Savings Plan. Harmonic has a retirement/savings plan that qualifies as a thrift plan under Section 401(k) of the Internal Revenue Code. This plan allows participants to contribute up to 20% of total compensation, subject to applicable Internal Revenue Service limitations. Harmonic can make discretionary contributions to the plan of 25% of the first 4% contributed by eligible participants, up to a maximum contribution per participant of $1,000 per year. The employer contribution has been suspended since the first quarter of 2009.

Stock-based Compensation

The following table summarizes stock-based compensation costs in our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and October 1, 2010:

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
Employee stock-based compensation in:				
Cost of revenue	$ 843	$ 516	$ 2,352	$ 1,521
Research and development expense	1,658	1,169	5,265	3,435
Selling, general and administrative expense	2,504	1,833	8,482	5,224
Total employee stock-based compensation in operating expense	4,162	3,002	13,747	8,659
Total employee stock-based compensation	5,005	3,518	16,099	10,180
Amount capitalized in inventory	—	(14)	—	11
Total stock-based compensation	$ 5,005	$ 3,504	$ 16,099	$ 10,191

As of September 30, 2011, total unamortized stock-based compensation cost related to unvested stock options and RSUs was $34.8 million. This amount will be recognized as expense using the straight-line attribution method over the remaining weighted-average amortization period of 2.5 years.

The fair value of each option grant is estimated on the date of grant, using the Black-Scholes single option pricing model with the following weighted average assumptions:

	Employee Stock Options			
	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Expected life (in years)	4.75	3.52	4.75	4.00
Volatility	53%	55%	54%	56%
Risk-free interest rate	1.2%	1.1%	2.0%	1.6%
Dividend yield	0.0%	0.0%	0.0%	0.0%

	Employee Stock Purchase Plan Awards			
	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Expected life (in years)	0.50	0.50	0.50	0.50
Volatility	46%	43%	45%	46%
Risk-free interest rate	0.1%	0.4%	0.2%	0.4%
Dividend yield	0.0%	0.0%	0.0%	0.0%

The expected life for stock options and ESPP awards represents the weighted-average period that the stock options or ESPP awards are expected to remain outstanding. Our computation of expected life for stock options was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior.

We use the historical volatility over the expected term of the options and the ESPP offering period to estimate the expected volatility.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our stock options and ESPP awards. The dividend yield assumption is based on our history and expectation of dividend payouts.

NOTE 11: INCOME TAXES

The income tax provision includes U.S. federal, state and local, and foreign income taxes and is based on the application of a forecasted annual income tax rate applied to the current quarter's year-to-date pre-tax income (loss). In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings, taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the Company's ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives. Discrete items, including the effect of changes in tax laws, tax rates, and certain circumstances with respect to valuation allowances or other unusual or non-recurring tax adjustments are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than being included in the estimated annual effective income tax rate.

For the three months ended September 30, 2011, the Company recorded a provision for income taxes of $0.8 million, compared to $1.7 million for the same period a year ago, inclusive of discrete items. For the nine months ended September 30, 2011, the Company recorded a provision for income taxes of $0.9 million, compared to a benefit from income taxes of $1.2 million for the same period a year ago, inclusive of discrete items.

For the three and nine months ended September 30, 2011, the difference between the recorded provision for income taxes and the tax provision, based on the federal statutory rate of 35%, was primarily attributable to the differential in foreign tax rates, non-deductible stock-based compensation expense, non-deductible amortization on foreign intangibles, and federal research and development credits. The discrete items recorded in the nine months ended September 30, 2011 principally related to accrued interest on uncertain tax positions, a benefit associated with the reversal of previously provided foreign income taxes due to statute of limitation expirations, and foreign currency translation adjustments.

For the three and nine months ended October 1, 2010, the difference between the recorded benefit from income taxes and the tax provision, based on the federal statutory rate of 35%, was primarily attributable to the differential in foreign tax rates, non-deductible stock-based compensation expense, and California research and development credits. The discrete items recorded in the nine months ended October 1, 2010 principally related to a benefit associated with the reversal of previously provided foreign income taxes due to expiration of the statute of limitations, a benefit associated with the release of a portion of the valuation allowance on certain California deferred tax assets, foreign currency translation adjustments, and accrued interest on uncertain tax positions.

In compliance with applicable guidance for accounting for uncertainty in income taxes, the Company had gross unrecognized tax benefits, which include interest and penalties, of approximately $53.4 million as of December 31, 2010, and approximately $58.4 million as of September 30, 2011. If all of these unrecognized tax benefits were recognized, the entire amount would impact the provision for income taxes. We anticipate the unrecognized tax benefits to decrease by $5.0 million in the 12 months beginning October 1, 2011, due to statute of limitation expirations, except to the extent the IRS may challenge the Company's position with respect to such benefits.

We recognize interest and penalties related to uncertain tax positions in income tax expense. During the nine months ended September 30, 2011, we recorded a net increase of $1.0 million for interest and penalties related to uncertain tax positions, resulting in a balance at September 30, 2011 of $6.0 million.

The tax years 2003-2010 remain open to examination by various federal, state or foreign taxing jurisdictions.

The Company's income tax returns for 2007, 2008, 2009 and 2010 are currently under examination by the U.S. Internal Revenue Service.

NOTE 12: NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of the common shares outstanding during the period.

The following table shows the potentially dilutive shares, consisting of options, restricted stock units and ESPP shares, for the periods presented that were excluded from the net income computations because their effect was antidilutive:

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
Potentially dilutive equity awards outstanding	11,555	10,818	13,412	12,544

Following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations:

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except per share amounts)			
Net income (loss) (numerator)	$ 3,546	$ (361)	$ 4,452	$ 9,403
Shares calculation (denominator):				
Weighted average shares outstanding—basic	115,791	100,246	114,855	97,975
Effect of dilutive securities:				
Potential shares relating to stock options, restricted stock units and ESPP	417	—	1,150	697
Weighted averages shares outstanding—diluted	116,208	100,246	116,005	98,672
Net income (loss) per share—basic	$ 0.03	$ (0.00)	$ 0.04	$ 0.10
Net income (loss) per share—diluted	$ 0.03	$ (0.00)	$ 0.04	$ 0.10

NOTE 13: COMPREHENSIVE INCOME

The Company's total comprehensive income was as follows:

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
Net income (loss)	$ 3,546	$ (361)	$ 4,452	$ 9,403
Change in unrealized gain (loss) on investments, net	(10)	5	(13)	(339)
Change in unrealized gain (loss) on foreign exchange contracts, net of tax	—	43	—	(19)
Foreign currency translation	(444)	567	79	(88)
Total comprehensive income	$ 3,092	$ 254	$ 4,518	$ 8,957

NOTE 14: SEGMENT INFORMATION

The Company operates its business in one reportable segment, which is the design, manufacture and sale of video infrastructure solutions, spanning content production to multi-screen video delivery. Harmonic's products enable customers to create, prepare and deliver video services over broadcast, cable, Internet, mobile, satellite and networks. Operating segments are defined as components of an enterprise that engage in business activities for which separate financial information is available and evaluated by the chief operating decision maker in deciding how to allocate resources and assessing performance. Our chief operating decision maker is our Chief Executive Officer. The acquisition of Omneon in September 2010 resulted in an additional product line, production and playout, but did not impact our reportable segments.

The Company's revenue by product type is summarized as follows:

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
Video processing products	$ 57,027	$ 51,005	$ 172,310	$ 139,893
Production and playout products (1)	26,619	4,880	73,005	4,880
Edge and access products	38,308	34,712	109,662	104,519
Service and support	16,917	14,187	50,725	35,857
	$ 138,871	$ 104,784	$ 405,702	$ 285,149

(1) The three and nine months ended October 1, 2010 include Omneon's revenue commencing on the date of acquisition, September 15, 2010.

Our revenue by geographic region, based on the location of our customer, and our property and equipment, net by geographic region, is summarized as follows:

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
Net revenue:				
United States	$ 68,718	$ 54,538	$ 183,250	$ 146,387
International	70,153	50,246	222,452	138,762
	$ 138,871	$ 104,784	$ 405,702	$ 285,149

	September 30, 2011	December 31, 2010
	(In thousands)	
Property and equipment, net:		
United States	$ 31,749	$ 32,104
International	7,630	7,721
	$ 39,379	$ 39,825

Major Customers. For the three and nine months ended September 30, 2011, revenue from Comcast accounted for 12% and 11% of net revenue, respectively. For the three and nine months ended October 1, 2010, revenue from Comcast accounted for 26% and 19% of net revenue, respectively. As of September 30, 2011, Comcast accounted for 14% of net accounts receivable.

NOTE 15: GUARANTEES

Warranties. The Company accrues for estimated warranty costs at the time of product shipment. Management periodically reviews the estimated fair value of its warranty liability and records adjustments based on the terms of warranties provided to customers, historical and anticipated warranty claims experience, and estimates of the timing and cost of specified warranty claims. Activity for the Company's warranty accrual, which is included in accrued liabilities, is summarized below:

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
Balance at beginning of period	$ 5,578	$ 3,194	$ 4,811	$ 4,186
Accrual for current period warranties	1,990	1,096	6,423	2,567
Warranty costs incurred	(1,963)	(1,267)	(5,629)	(3,730)
Omneon acquisition	—	959	—	959
Balance at end of period	$ 5,605	$ 3,982	$ 5,605	$ 3,982

Standby Letters of Credit. As of September 30, 2011, the Company's financial guarantees consisted of standby letters of credit outstanding, which principally related to performance bonds and state requirements imposed on employers. The maximum amount of potential future payments under these arrangements was $0.8 million.

Indemnification. Harmonic is obligated to indemnify its officers and the members of its Board of Directors pursuant to its bylaws and contractual indemnity agreements. Harmonic also indemnifies some of its suppliers and most of its customers for specified intellectual property matters pursuant to certain contractual arrangements, subject to certain limitations. The scope of these indemnities varies but, in many instances, includes indemnification for damages and expenses (including reasonable attorneys' fees). There have been no amounts accrued in respect of the indemnification provisions through September 30, 2011.

Guarantees. As of September 30, 2011, Harmonic had no other guarantees outstanding.

NOTE 16: LEGAL PROCEEDINGS

In October 2011 Avid Technology, Inc. filed a complaint in the United States District Court for the District of Delaware alleging that Harmonic's Omneon Media Grid product infringes two patents held by Avid. The complaint seeks injunctive relief and damages. Harmonic is currently evaluating its position with respect to these patents. At this time, Harmonic cannot predict the outcome of this matter. An unfavorable outcome of this matter could adversely affect the Company's business, operating results, financial position and cash flows.

In April 2010, Arris Corporation filed a complaint in United States District Court in Atlanta, alleging that our Streamliner 3000 product infringes four patents held by Arris. The complaint sought injunctive relief and damages. In connection with this matter, we recorded a $1.3 million liability in the fourth quarter of 2010, based on a tentative agreement of Arris and Harmonic with respect to settlement of the action. In April 2011, this matter was settled on essentially the same terms as the tentative agreement, the Company paid Arris $1.3 million, and the action was dismissed.

In March 2010, Interkey ELC Ltd, or Interkey, filed a lawsuit in Israel alleging breach of contract against Harmonic and Scopus Video Networks Ltd. (now Harmonic Video Networks Ltd. or "HVN"), which was acquired by Harmonic in March 2009. The plaintiffs are seeking damages in the amount of 6,300,000 ILS (approximately $1.7 million). Although, as is the case with all litigation, no assurances can be given as to the outcome of the Interkey lawsuit, Harmonic believes Interkey's and its shareholders' claims are without merit and Harmonic and HVN intend to vigorously defend themselves against these claims. Based on the foregoing, Harmonic has not recorded a provision for this claim.

An unfavorable outcome on the above referenced or any other litigation matters could require that Harmonic pay substantial damages, or, in connection with any intellectual property infringement claims, could require that the Company pay ongoing royalty payments or could prevent the Company from selling certain of its products. As a result, a settlement of, or an unfavorable outcome on, any of the above referenced or other litigation matters could have a material adverse effect on Harmonic's business, operating results, financial position and cash flows.

Harmonic's industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. From time to time, third parties have asserted, and may in the future assert, exclusive patent, copyright, trademark and other intellectual property rights against us or the Company's customers. Such assertions arise in the normal course of the Company's operations. The resolution of any such assertions and claims cannot be predicted with certainty.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The terms "Harmonic," the "Company," "we," "us," "its," and "our," as used in this Quarterly Report on Form 10-Q, refer to Harmonic Inc. and its subsidiaries and its predecessors as a combined entity, except where the context requires otherwise.

Some of the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements that involve risk and uncertainties. The statements contained in this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding the future. In some cases, you can identify forward-looking statements by terminology such as, "may," "will," "should," "expects," "plans," "anticipates," "believes," "intends," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements regarding:

- developing trends and technological changes in the markets we serve;
- continuation of customer concentration;
- capital spending of our customers in the balance of 2011 and beyond;
- impact of natural disasters on our supply chain;
- our strategic direction, future business plans and growth strategy;
- dependence on international revenue;
- dependence on contract manufacturers;
- industry and customer consolidation;
- anticipated changes in economic conditions or the financial markets, and the potential impact on our business;
- need to develop timely new and enhanced products;
- the expected demand for, and benefits of, our products and services;
- concentration of revenue sources;
- anticipated benefits of recent acquisitions and potential future acquisitions;
- statements regarding anticipated results of potential or actual litigation;
- our competitive environment;
- the impact of governmental regulation;
- the impact of conditions in, and changes to, economies and markets;
- anticipated revenue and expenses, including the sources of such revenue and expenses; and
- use of cash, cash needs and ability to raise capital.

These statements are subject to known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. Important factors that may cause actual results to differ from expectations include those discussed in "Risk Factors" beginning on page 35 of this Form 10-Q. All forward-looking statements included in this Form 10-Q are based on information available to us on the date thereof, and we assume no obligation to update any such forward-looking statements.

Overview

Harmonic designs, manufactures and sells versatile and high performance video infrastructure products and system solutions that enable our customers to efficiently create, prepare and deliver broadcast and on-demand video services to televisions, personal computers and mobile devices. Historically, the majority of our sales have been derived from sales of video processing solutions and network edge and access systems to cable television operators and from sales of video processing solutions to direct-to-home satellite operators. More recently, we have been providing our video processing solutions to telecommunications companies, or telcos, broadcasters and other media companies that create video programming or offer video services. In September 2010, we acquired Omneon, Inc., a private, venture-backed company specializing in file-based infrastructure for the production, preparation and playout of video content typically deployed by broadcasters, satellite operators, content owners and other media companies. The acquisition of Omneon, which is further described below, is complementary to Harmonic's core business, expanding our customer reach into content providers and extending our product lines into video servers and video-optimized storage for content production and playout.

Harmonic's revenue increased by 33% and 42% in the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010. Harmonic's revenue increased, in part, in the three and nine months ended September 30, 2011, as a result of the acquisition of Omneon in September 2010. Omneon's product revenue, which for the three and nine months ended September 30, 2011, was $26.6 million and $73.0 million, respectively, is included in the production and playout product line under "Net Revenue — Consolidated" below. The increase in revenue in the three and nine months ended September 30, 2011 was also due to stronger customer demand for video processing and edge and access solutions. Video processing revenue grew 12% and 23% in the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010. Edge and access revenue grew 10% and 5% in the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010. The addition of Omneon product revenue and the growth of video processing and edge and access revenue contributed to the growth in service and support activity related to the associated product type, resulting in services and support revenue growth of 19% and 41% in the three and nine months ended September 30, 2011, respectively, when compared to the same periods in 2010.

As a direct result of the impact of the recent floods in Thailand on the supply of products and components manufactured in Thailand, we presently expect (1) our product costs to increase slightly in the fourth quarter of 2011 ("Q4") and to be adversely affected in the first quarter of 2012 ("Q1"), and (2) to be unable to record in Q4 as much as $2.0 million of revenue on projected sales of one of our products. If we are unable to source timely a component for such product in sufficient quantities to meet most of our projected sales of such product in Q1, our access product line revenue for Q1 would be materially and adversely affected. See "Item 1A – Risk Factors – The Company's operating results could be materially and adversely affected by natural disasters…." on page 41 of this Report on Form 10-Q for a further discussion of the impact on the Company of the Thailand flooding.

Financial difficulties of certain of our customers and changes in our customers' deployment plans have adversely affected our business in the past. In 2008 and 2009, economic conditions in many of the countries in which we sell products were very weak, and global economic conditions and financial markets experienced a severe downturn. The downturn stemmed from a multitude of factors, including adverse credit conditions, slower economic activity, concerns about inflation and deflation, rapid changes in foreign exchange rates, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns.

Although there was an increase in global economic activity in 2010 and in the first six months of 2011, global economic growth was sluggish in the third quarter of 2011 and may be sluggish during the fourth quarter of 2011 and possibly beyond. The severity or length of time that economic and financial market conditions may be sluggish, whether certain or all of such adverse factors will persist, or whether a severe downturn may reoccur in the U.S. and in other countries, is unknown. During challenging or uncertain economic times, and in tight credit markets, many customers may delay or reduce capital expenditures, which in turn often results in lower demand for our products.

Sales to customers outside of the U.S. in the three and nine months ended September 30, 2011 represented 51% and 55% of net revenue, respectively, compared to 48% and 49%, respectively, for the same periods in 2010. A significant portion of international sales are made to distributors and system integrators, which are generally responsible for importing the products and providing installation and technical support and service to customers within their territory. We expect international sales to continue to account for a substantial portion of our net revenue for the foreseeable future, and expect that, partially as a result of the acquisitions of Scopus in 2009 and of Omneon in 2010, our international sales may continue to increase as a percentage of net revenue from year to year.

Further, we have a number of international customers to whom sales are denominated in U.S. dollars. Sales denominated in foreign currencies were approximately 10% of net revenue in the nine months ended September 30, 2011, compared to 6% for the same period in 2010. The value of the U.S. dollar fluctuates significantly against many foreign currencies, which includes the local currencies of many of our international customers. If the U.S. dollar appreciates relative to the local currencies of our customers, then the prices of our products correspondingly increase for such customers. Such an effect could adversely impact sales of our products to such customers and result in longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition in the affected countries. Further, if the U.S. dollar were to weaken against many major currencies, there can be no assurance that a weaker dollar would lead to growth in capital spending.

In addition, industry consolidation has in the past constrained, and may in the future constrain, total capital spending by our customers. Also, if our product portfolio and product development plans do not position us well to capture an increased portion of the capital spending of customers in the markets on which we focus, our revenue may decline.

Historically, a majority of our revenue has been derived from relatively few customers, due in part to the consolidation of the ownership of cable television and direct broadcast satellite system companies. However, in the last two years, revenue from our ten largest customers has decreased as a percentage of revenue, due to our growing customer base, in part as a result of the acquisitions of Scopus and Omneon. Sales to our ten largest customers in the three and nine months ended September 30, 2011 accounted for approximately 45% and 37% of revenue, respectively, compared to 48% and 47%, respectively, for the same periods in 2010. Although we are attempting to broaden our customer base by penetrating new markets and further expanding internationally, we expect to see continuing industry consolidation and customer concentration.

In the three and nine months ended September 30, 2011, sales to Comcast accounted for 12% and 11% of net revenue, respectively, compared to 26% and 19%, respectively, for the same periods in 2010. The loss of Comcast, or any other significant customer, any material reduction in orders by Comcast, or any significant customer, or our failure to qualify our new products with a significant customer could materially and adversely affect our operating results, financial condition and cash flows. In addition, we are involved in most quarters in one or more relatively large individual transactions, including, from time to time, projects in which we act much like a systems integrator. A decrease in the number of the relatively larger individual transactions in which we are involved in any quarter could adversely affect our operating results for that quarter.

In addition, historically, we have been dependent upon capital spending in the cable and satellite industries. We are attempting to further diversify our customer base beyond cable and satellite customers, including to the telco and broadcast and media markets. Several major telcos have rebuilt or are upgrading their networks to offer bundled video, voice and data services. In order to be successful in this market, we may need to continue to build alliances with telco equipment manufacturers, adapt our products for telco applications, take orders at prices resulting in lower margins, and build internal expertise to handle the particular contractual and technical demands of the telco industry. In addition, telco video deployments, including recent trials of mobile video services, are subject to delays in completion, as video processing technologies and video business models are relatively new to most telcos and many of their largest suppliers. Implementation issues with our products or those of other vendors have caused, and may continue to cause, delays in project completion for our customers and delay our recognition of revenue.

We often recognize a substantial portion of our quarterly revenues in the last month of the quarter. We establish our expenditure levels for product development and other operating expenses based on projected revenue levels for a specified period, and expenses are relatively fixed in the short term. Accordingly, even small variations in timing of revenue, particularly from large individual transactions, can cause significant fluctuations in operating results in a particular quarter.

On September 15, 2010, Harmonic completed the acquisition of Omneon, Inc., a private, venture-backed company organized under the laws of Delaware and headquartered in Sunnyvale, California. The purchase price, net of $40.5 million of cash acquired, was $251.3 million, which consisted of (i) approximately $153.3 million in cash, net of cash acquired, (ii) 14.2 million shares of Harmonic common stock with a total fair value of approximately $95.9 million, based on the price of Harmonic common stock at the time of close, and (iii) approximately $2.1 million, representing the fair value attributed to shares of Omneon equity awards which Harmonic assumed and for which services had already been rendered as of the close of the acquisition. The cash portion of the purchase price was paid from existing cash balances. The Company also incurred a total of $5.9 million of transaction expenses, which were expensed as selling, general and administrative expenses in the year ended December 31, 2010. Substantially all unvested stock options and unvested restricted stock units issued by Omneon and outstanding at closing were assumed by Harmonic.

We have expanded our international operations and staffing to better support our expansion into international markets. This expansion included the implementation of an international structure that involved, among other things, an international support center in Europe, a research and development cost-sharing arrangement, and certain licenses and other contractual arrangements by and among the Company and its wholly-owned domestic and foreign subsidiaries. Our foreign subsidiaries have acquired certain license rights to use our existing intellectual property and intellectual property that will be developed or licensed in the future, including Omneon’s existing and future intellectual property. As a result of these changes and an expanding customer base internationally, we expect that an increasing percentage of our consolidated pre-tax income will be derived from, and reinvested in, our international operations. We anticipate that this pre-tax income will be subject to foreign tax at relatively lower tax rates when compared to the United States federal statutory tax rate in future periods.

Critical Accounting Policies, Judgments and Estimates

The preparation of financial statements and related disclosures requires Harmonic to make judgments, assumptions and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingencies, and the reported amounts of revenue and expenses in the financial statements and accompanying notes. Material differences may result in the amount and timing of revenue and expenses if different judgments or different estimates were made.

Our significant accounting policies are described in Note 1 to our Consolidated Financial Statements as of and for the year ended December 31, 2010, included in our 2010 Form 10-K and the notes to the Condensed Consolidated Financial Statements as of and for the three and nine months ended September 30, 2011, included in this Form 10-Q. Critical accounting policies, judgments and estimates which we believe have the most significant impact on Harmonic's financial statements are set forth below. These policies, judgments and estimates have not changed since December 31, 2010, except as described in Note 1 to the Condensed Consolidated Financial Statements included herein.

- Revenue recognition;
- Allowances for doubtful accounts, returns and discounts;
- Valuation of inventories;
- Impairment of goodwill or long-lived assets;
- Restructuring costs and accruals for excess facilities;
- Assessment of the probability of the outcome of litigation;
- Accounting for income taxes; and
- Stock-based compensation.

Results of Operations

Harmonic's condensed consolidated statements of operations data for the three and nine months ended September 30, 2011 and October 1, 2010, as a percentage of net revenue, is as follows:

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Net revenue	100%	100%	100%	100%
Cost of revenue	54	55	54	53
Gross profit	46	45	46	47
Operating expenses:				
Research and development	18	18	19	18
Selling, general and administrative	23	25	24	25
Amortization of intangibles	2	1	2	1
Total operating expenses	43	44	45	44
Income from operations	3	1	1	3
Interest and other income, net	—	—	—	—
Income before income taxes	3	1	1	3
Provision for (benefit from) income taxes	—	1	—	—
Net income	3%	— %	1%	3%

Net Revenue — Consolidated

Harmonic's consolidated net revenue in the three and nine months ended September 30, 2011, compared with the corresponding periods in 2010, are presented in the table below. Also presented are the related dollar and percentage changes in consolidated net revenue in the three and nine months ended September 30, 2011, from the corresponding periods in 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Revenue by type:				
Video processing products	$ 57,027	$ 51,005	$ 172,310	$ 139,893
Production and playout products	26,619	4,880	73,005	4,880
Edge and access products	38,308	34,712	109,662	104,519
Service and support	16,917	14,187	50,725	35,857
Net revenue	$ 138,871	$ 104,784	$ 405,702	$ 285,149
Increase:				
Video processing products	$ 6,022		$ 32,417	
Production and playout products	21,739		68,125	
Edge and access products	3,596		5,143	
Service and support	2,730		14,868	
Total increase	$ 34,087		$ 120,553	
Percent change:				
Video processing products	12%		23%	
Production and playout products	445		1,396	
Edge and access products	10		5	
Service and support	19		41	
Total percent change	33%		42%	

The increase in net revenue in the three and nine months ended September 30, 2011, compared to the same periods of 2010, was due, in large part, to the revenue contribution resulting from the acquisition of Omneon. Omneon's product revenue is included in the production and playout product line above. In addition, our revenue increased due to strong demand for our video processing products and increased demand for our edge and access products. The addition of Omneon product revenue and the growth in video processing and edge and access product revenue also contributed to the growth in service and support activity related to the associated products, resulting in service and support revenue growth of 19% and 41%, respectively, in the three and nine months ended September 30, 2011, when compared to the same periods in 2010.

Net Revenue — Geographic

Harmonic's domestic and international net revenue in the three and nine months ended September 30, 2011, compared with the corresponding periods in 2010, are presented in the table below. Also presented are the related dollar and percentage changes in domestic and international net revenue in the three and nine months ended September 30, 2011, from the corresponding periods in 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Net revenue:				
United States	$ 68,718	$ 54,538	$ 183,250	$ 146,387
International	70,153	50,246	222,452	138,762
Total	$ 138,871	$ 104,784	$ 405,702	$ 285,149
Increase:				
United States	$ 14,180		$ 36,863	
International	19,907		83,690	
Total increase	$ 34,087		$ 120,553	
Percent change:				
United States	26%		25%	
International	40		60	
Total percent change	33%		42%	

The increase in U.S. net revenue in the three months ended September 30, 2011, compared to the corresponding period in 2010, was principally due to the addition of Omneon product revenue. The increase in U.S. net revenue in the nine months ended September 30, 2011, compared to the corresponding period in 2010, was principally due to the addition of Omneon product revenue and, to a lesser extent, increased video processing revenue and service and support revenue.

International net revenue in the three and nine months ended September 30, 2011 increased, compared to the corresponding periods in 2010, primarily due to sales of Omneon production and playout products, given that a substantial majority of production and playout net revenues were international and, to a lesser extent, increased demand from customers in emerging markets. We expect that international sales will continue to account for a significant portion of our net revenue for the foreseeable future, and expect that, due to sales of Omneon products in particular, our international revenue may increase as a percentage of our total net revenue from year to year.

Gross Profit

Harmonic's gross profit and gross profit as a percentage of net revenue in the three and nine months ended September 30, 2011, as compared with the corresponding periods of 2010, are presented in the table below. Also presented are the related dollar and percentage changes in gross profit in the three and nine months ended September 30, 2011, from the corresponding periods in 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Gross profit	$ 63,961	$ 47,532	$ 187,644	$ 134,019
As a percentage of net revenue	46%	45%	46%	47%
Increase	$ 16,429		$ 53,625	
Percent change	35%		40%	

The increase in gross profit in the three and nine months ended September 30, 2011, as compared to the corresponding periods in 2010, was primarily due to increased net revenue in 2011. The gross profit percentage of 46% in the three months ended September 30, 2011, compared to 45% in the same period in 2010, was higher principally due to higher production and playout revenue which typically carries a higher gross margin than our average gross margins, offset by higher amortization of intangibles. The gross profit percentage of 46% in the nine months ended September 30, 2011, compared to 47% in the same period in 2010, was lower principally due to higher amortization of intangibles, offset by higher gross margins on production and playout revenue.

In the three and nine months ended September 30, 2011, $5.4 million and $16.1 million, respectively, of amortization of intangibles was included in cost of sales, compared to $2.7 million and $6.9 million, respectively, in the corresponding periods of 2010. The higher amortization of intangible expense in 2011 was due to the amortization of intangibles arising from the Omneon acquisition, which was completed in September 2010. We expect to record approximately $5.4 million in amortization of intangibles expense in cost of sales in the fourth quarter of 2011, primarily resulting from the acquisitions of Omneon and Scopus.

Research and Development

Harmonic's research and development expense and the expense as a percentage of net revenue in the three and nine months ended September 30, 2011, as compared with the corresponding periods of 2010, are presented in the table below. Also presented are the related dollar and percentage changes in research and development expense in the three and nine months ended September 30, 2011, from the corresponding periods of 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Research and development	$ 25,638	$ 19,002	$ 77,449	$ 52,946
As a percentage of net revenue	18%	18%	19%	18%
Increase	$ 6,636		$ 24,503	
Percent change	35%		46%	

The increase in research and development expense in the three months ended September 30, 2011, compared to the corresponding period in 2010, was primarily the result of increased compensation expense of $4.3 million, increased facilities related expenses of $0.9 million, increased outside engineering services of $0.7 million and increased stock-based compensation expense of $0.5 million.

The increase in research and development expense in the nine months ended September 30, 2011, compared to the corresponding period in 2010, was primarily the result of increased compensation expense of $14.4 million, increased outside engineering services of $3.9 million, increased facilities related expenses of $2.7 million and increased stock-based compensation expense of $1.8 million.

The increased compensation expense, outside engineering services and stock-based compensation expense were primarily due to increased engineering headcount and activities resulting from the Omneon acquisition, as well as additional hiring of employees engaged in engineering activities. The increased facilities related expenses were primarily due to additional depreciation of building improvements and lab equipment costs resulting from the Omneon acquisition.

Selling, General and Administrative

Harmonic's selling, general and administrative expense and the expense as a percentage of net revenue in the three and nine months ended September 30, 2011, as compared with the corresponding periods of 2010, are presented in the table below. Also presented are the related dollar and percentage changes in selling, general and administrative expense in the three and nine months ended September 30, 2011, from the corresponding periods of 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Selling, general and administrative	$ 32,254	$ 25,999	$ 98,361	$ 70,917
As a percentage of net revenue	23%	25%	24%	25%
Increase	$ 6,255		$ 27,444	
Percent change	24%		39%	

The increase in selling, general and administrative expense in the three months ended September 30, 2011, compared to the corresponding period in 2010, was primarily a result of increased compensation expense of $4.0 million, increased program marketing and third party commission expense of $2.1 million, increased travel expense of $1.0 million, increased consulting and professional service expense of $1.0 million and increased stock-based compensation expense of $0.7 million, partially offset by the absence of $3.3 million of acquisition related costs incurred in 2010 in connection with the acquisition of Omneon.

The increase in selling, general and administrative expense in the nine months ended September 30, 2011, compared to the corresponding period in 2010, was primarily a result of increased compensation expense of $15.1 million, increased stock-based compensation expense of $3.3 million, increased program marketing and third party commission expense of $4.6 million, increased travel expense of $3.2 million, increased facilities related expense of $1.2 million and increased consulting and professional service expense of $3.0 million, partially offset by the absence of $5.7 million of acquisition related costs incurred in 2010 in connection with the acquisition of Omneon.

The increased compensation expense, stock-based compensation expense, marketing and selling expense and travel expense in the three and nine month periods were primarily due to increased headcount resulting from the Omneon acquisition and higher commission expense resulting from increased net revenue in 2011. The increase in consulting and professional service expense in the periods were related to higher temporary headcount and additional consulting resources being used in general and administrative activities. The increased facilities related expense in the periods were partially due to the additional $0.5 million of excess facilities reserve recorded in the first quarter of 2011 related to Omneon's headquarters in Sunnyvale, California.

Amortization of Intangibles

Harmonic's amortization of intangible assets and the expense as a percentage of net revenue in the three and nine months ended September 30, 2011, as compared with the corresponding periods of 2010, are presented in the table below. Also presented are the related dollar and percentage changes in amortization of intangible assets in the three and nine months ended September 30, 2011, from the corresponding periods of 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Amortization of intangibles	$ 2,229	$ 959	$ 6,688	$ 2,026
As a percentage of net revenue	2%	1%	2%	1%
Increase	$ 1,270		$ 4,662	
Percent change	132%		230%	

The increases in the amortization of intangibles expense in the three and nine months ended September 30, 2011, compared to the corresponding periods in 2010, were primarily due to the amortization of intangible assets obtained in connection with the acquisition of Omneon during the third quarter of 2010. Harmonic expects to record a total of approximately $2.2 million in amortization of intangibles expense in operating expenses in the fourth quarter of 2011, primarily resulting from the acquisitions of Scopus and Omneon.

Interest Income, Net

Harmonic's interest income, net, and interest income, net, as a percentage of consolidated net revenue in the three and nine months ended September 30, 2011, as compared with the corresponding periods of 2010, are presented in the table below. Also presented are the related dollar and percentage changes in interest income, net, in the three and nine months ended September 30, 2011, as compared with the corresponding periods of 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Interest income, net	$ 90	$ 165	$ 256	$ 974
As a percentage of net revenue	— %	— %	— %	— %
Decrease	$ 75		$ 718	
Percent change	45%		74%	

The decreases in interest income, net in the three and nine months ended September 30, 2011, compared to the corresponding periods of 2010, were primarily due to lower cash and short-term investments portfolio balances during the 2011 periods, principally resulting from cash used in the Omneon acquisition, and lower interest rates earned on the portfolio balances.

Other Income (Expense), Net

Harmonic's other income (expense), net, and other income (expense), net, as a percentage of consolidated net revenue in the three and nine months ended September 30, 2011, as compared with the corresponding periods of 2010, are presented in the table below. Also presented are the related dollar and percentage changes in other income (expense), net, in the three and nine months ended September 30, 2011, from the corresponding periods of 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Other income (expense), net	$ 381	$ (405)	$ (25)	$ (903)
As a percentage of net revenue	— %	— %	— %	— %
Increase	$ 786		$ 878	
Percent change	194%		97%	

The increase in other income (expense), net, in the three months ended September 30, 2011, compared to the corresponding period of 2010, was primarily due to higher foreign exchange gains in 2011 on accounts receivable and intercompany balances denominated in currencies other than the U.S. dollar.

The decrease in other expense, net, in the nine months ended September 30, 2011, compared to the corresponding period of 2010, was primarily due to lower foreign exchange losses in 2011 on accounts receivable and intercompany balances denominated in currencies other than the U.S. dollar.

Income Taxes

Harmonic's provision for (benefit from) income taxes, and provision for (benefit from) income taxes, as a percentage of consolidated net revenue, in the three and nine months ended September 30, 2011, as compared with the corresponding periods of 2010, are presented in the table below. Also presented are the related dollar and percentage changes in income taxes in the three and nine months ended September 30, 2011, from the corresponding periods of 2010.

	Three months ended		Nine months ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except percentages)			
Provision for (benefit from) income taxes	$ 765	$ 1,693	$ 925	$ (1,202)
As a percentage of net revenue	— %	1%	— %	— %
Increase (decrease)	$ (928)		$ 2,127	
Percent change	(55)%		177%	

The decrease in the provision for income taxes in the three months ended September 30, 2011, compared to the same period in 2010, was primarily attributable to reduced accruals of foreign taxes for uncertain tax benefits in 2011.

The provision for income taxes in the nine months ended September 30, 2011, compared to a benefit from income taxes in the same period in 2010, was primarily attributable to lower reversals in the 2011 period of foreign taxes previously accrued as uncertain tax benefits due to an expiration of the statute of limitations, translation adjustments and accrued interest on uncertain tax positions. The increase also resulted from a reduction in the valuation allowance on the California deferred tax assets in the nine months ended October 1, 2010, due to an increase in the estimated amount of income that will be apportioned to California based on anticipated changes in the geographic mix of sales and a reallocation of expenses between legal entities, that did not reoccur in the nine months ended September 30, 2011.

The Company's income tax returns for 2007, 2008, 2009 and 2010 are currently under examination by the U.S. Internal Revenue Service. See "Risk Factors — Fluctuations in our future effective tax rates could affect our future operating results, financial condition and cash flows" for additional information.

Liquidity and Capital Resources

	Nine months ended	
	September 30, 2011	October 1, 2010
	(In thousands)	
Net cash provided by operating activities	$ 20,389	$ 1,212
Net cash used in investing activities	(55,017)	(105,828)
Net cash provided by financing activities	13,301	22,751

As of September 30, 2011, cash, cash equivalents and short-term investments totaled $140.9 million, compared to $120.4 million as of December 31, 2010. Cash provided by operations in the nine months ended September 30, 2011 was $20.4 million, resulting from net income of $4.5 million, increased by an aggregate of $48.0 million in non-cash charges and decreased by an aggregate of $32.0 million in net change in assets and liabilities. The non-cash charges included principally amortization of intangible assets, stock-based compensation and depreciation. The net change in assets and liabilities included: (a) increases in accounts receivable and inventories, which were partially offset by a decrease in prepaid expenses; and (b) decreases in income taxes payable, deferred revenue and accrued and other liabilities, which were partially offset by an increase in accounts payable. The increase in accounts receivable was primarily due to the non-linearity of invoicing in the nine months ended September 30, 2011. The increase in inventories was due to higher service, production and demonstration inventories. The decrease in income taxes payable was due to estimated tax payments made in 2011. The decrease in deferred revenue was primarily due to the timing of periodic service and support billings for annual contracts and the recognition of product revenue for a larger contract that had previously been deferred. The decrease in accrued and other liabilities was principally attributable to payment in 2011 of incentive compensation accruals from 2010.

Cash provided by operations in the nine months ended October 1, 2010 was $1.2 million, resulting from net income of $9.4 million, adjusted for $27.1 million in non-cash charges, and a $35.3 million net use of cash relating to the changes in assets and liabilities. The significant non-cash charges included stock-based compensation, amortization of intangible assets and depreciation. The net change in assets and liabilities included an increase in inventories primarily due to an increase in service and demonstration inventories, an increase in accounts receivable due to higher shipments in the first nine months of 2010, a decrease in accrued liabilities primarily from the payment in 2010 of incentive compensation accruals from 2009 and lower accrued excess facilities costs.

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including, without limitation, fluctuations in our operating results and taxable income, shipment and invoicing linearity, accounts receivable collections performance, inventory and supply chain management, and the timing and amount of compensation and other payments. We typically pay our annual incentive compensation for a year to employees in the first quarter of the next year.

Net cash used in investing activities was $55.0 million in the nine months ended September 30, 2011, principally resulting from the purchase of short-term investments of $76.2 million and capital expenditures of $12.4 million, offset by proceeds from the sale and maturity of investments of $33.8 million.

Net cash used in investing activities was $105.8 million in the nine months ended October 1, 2010, resulting from cash paid for the acquisition of Omneon of $153.3 million, the purchase of investments of $39.0 million and capital expenditures of $29.8 million, offset by proceeds from the sale and maturity of investments of $116.3 million.

Net cash provided by financing activities of $13.3 million in the nine months ended September 30, 2011 was the result of net proceeds from the issuance of common stock related to our stock plans. Net cash provided by financing activities of $22.8 million in the nine months ended October 1, 2010 was the result of proceeds received from lessor financing of building construction for our new headquarters of $18.8 million and net proceeds from the issuance of common stock related to our stock plans of $3.9 million.

In the event we need or desire to access funds from the short-term investments that we hold, it is possible that we may not be able to do so due to adverse market conditions. Our inability to sell all or some of our short-term investments at par or our cost, or any rating downgrades of issuers of these securities, could adversely affect our results of operations or financial condition. Nevertheless, we believe that our existing liquidity sources will satisfy our presently contemplated cash requirements for the next twelve months. However, if our expectations are incorrect, we may need to raise additional funds to fund our operations, to take advantage of unanticipated opportunities, or to strengthen our financial position.

In addition, we often review potential acquisitions that would complement our existing product offerings, enhance our technical capabilities, or expand our marketing and sales presence. Any future transaction of this nature could require potentially significant amounts of capital or could require us to issue our stock and dilute existing stockholders. If adequate funds are not available, or are not available on acceptable terms, we may not be able to take advantage of market or acquisition opportunities, to develop new products, or to otherwise respond to competitive pressures.

Our ability to raise funds may be adversely affected by a number of factors relating to Harmonic, as well as factors beyond our control, including the U.S. and global economic situation, any further downgrade of the credit rating of the United States, European sovereign debt concerns, and conditions in financial markets and the industries we serve. There can be no assurance that any financing will be available on terms acceptable to us, or at all.

Off-Balance Sheet Arrangements

None as of September 30, 2011.

Contractual Obligations and Commitments

There were no significant changes to our contractual obligations and commitments in the nine months ended September 30, 2011, from the information presented in our 2010 Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the operating results, financial position, or liquidity of Harmonic due to adverse changes in market prices and rates. Harmonic is exposed to market risk because of changes in interest rates, foreign currency exchange rates, as measured against the U.S. dollar and currencies of Harmonic's subsidiaries, and changes in the value of financial instruments held by Harmonic.

Foreign Currency Exchange Risk

Harmonic has a number of international subsidiaries, each of whose sales are generally denominated in U.S. dollars. In addition, Harmonic has various international branch offices that provide sales support and systems integration services. Sales denominated in foreign currencies were approximately 10% and 6% of net revenue in the first nine months of 2011 and 2010, respectively. Periodically, Harmonic enters into foreign currency forward exchange contracts ("forward exchange contracts") to manage exposure related to foreign accounts receivable and reduce the effects of fluctuating exchange rates on expenses denominated in foreign currencies. Harmonic does not enter into derivative financial instruments for trading purposes. At September 30, 2011, we had a forward exchange contract to sell Euros totaling $7.6 million. This forward exchange contract matured in October 2011. While Harmonic does not anticipate that near-term changes in exchange rates will have a material impact on Harmonic's operating results, financial position and liquidity, Harmonic cannot provide assurances that a sudden and significant change in the value of local currencies would not harm Harmonic's operating results, financial position and liquidity.

Interest Rate Risk

Exposure to market risk for changes in interest rates relates primarily to Harmonic's investment portfolio of marketable debt securities of various issuers, types and maturities and to Harmonic's borrowings, if any, under its bank line of credit facility. Harmonic has no borrowings under its bank line of credit. Harmonic does not use derivative instruments in its investment portfolio, and its investment portfolio only includes highly liquid instruments. These investments are classified as available for sale and are carried at estimated fair value, with unrealized gains and losses reported in "accumulated other comprehensive income". As of September 30, 2011, gross unrealized gains were nominal. If the credit markets deteriorate, we may incur realized losses, which could adversely affect our financial condition or results of operations. There is risk that losses could be incurred if Harmonic were to sell any of its securities prior to stated maturity. As of September 30, 2011, our cash, cash equivalents and short-term investments balance was $140.9 million. In a declining interest rate environment, as short term investments mature, reinvestment occurs at less favorable market rates. Given the short term nature of certain investments, declining interest rates would negatively impact investment income. Based on our estimates, a 100 basis point, or 1%, change in interest rates would have increased or decreased the fair value of our investments by approximately $0.1 million as of September 30, 2011.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in internal controls.

On September 15, 2010, we acquired Omneon and, as a result, we are in the process of integrating the processes, systems and controls relating to Omneon into our existing system of internal control over financial reporting in accordance with our integration plans. In addition, various transitional controls designed to supplement existing internal controls have been implemented with respect to the acquired processes and systems. Except for the processes, systems and controls relating to the integration of Omneon, there have not been any changes in the Company's internal control over financial reporting during the nine months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 29, 2011 Avid Technology, Inc. filed a complaint in the United States District Court for the District of Delaware alleging that Harmonic's Omneon Media Grid product infringes two patents held by Avid. The complaint seeks injunctive relief and damages. Harmonic is currently evaluating its position with respect to these patents. At this time, Harmonic cannot predict the outcome of this matter. An unfavorable outcome of this matter could adversely affect the Company's business, operating results, financial position and cash flows.

On March 4, 2010, Interkey ELC Ltd, or Interkey, filed a lawsuit in Israel, alleging breach of contract against Harmonic and Scopus Video Networks Ltd. (now Harmonic Video Networks Ltd. or "HVN"), which was acquired by Harmonic in March 2009, and Harmonic. The plaintiffs are seeking damages in the amount of 6,300,000 ILS (approximately $1.7 million). Although, as is the case with all litigation, no assurances can be given as to the outcome of the Interkey lawsuit, Harmonic believes Interkey's and its shareholders claims are without merit and Harmonic and HVN intend to vigorously defend themselves against these claims.

Harmonic is subject to other litigation incidental to its business that is not believed to be material to the Company.

ITEM 1A. RISK FACTORS

We depend on cable, satellite and telco, and broadcast and media industry capital spending for a substantial majority of our revenue and any material decrease or delay in capital spending in any of these industries would negatively impact our operating results, financial condition and cash flows.

A substantial majority of our historical revenue has been derived from sales to cable television operators, satellite and telco operators and broadcast companies, as well as, more recently, the emerging streaming media providers. In September 2010, we completed the acquisition of Omneon, a private, venture-backed company specializing in file-based infrastructure for the production, preparation and playout of video content typically deployed by broadcasters, satellite operators, content owners and other media companies. We expect revenue from all of these markets will constitute a substantial majority of revenue for the foreseeable future. Demand for our products will depend on the magnitude and timing of capital spending by customers in these markets for constructing and upgrading their systems.

These capital spending patterns are dependent on a variety of factors, including:

- impact of general economic conditions, actual and projected;
- access to financing;
- annual capital spending budget cycles of each of the industries we serve;
- impact of industry consolidation;
- federal, local and foreign government regulation of telecommunications and television broadcasting;

- overall demand for communication services and consumer acceptance of new video and data services;
- evolving industry standards and network architectures;
- competitive pressures, including pricing pressures; and
- discretionary end-user customer spending patterns.

In the past, specific factors contributing to reduced capital spending have included:

- weak or uncertain economic and financial conditions in domestic or international markets, particularly in the housing markets in the developed countries;
- uncertainty related to development of digital video industry standards;
- delays in the evaluation of new services, new standards and system architectures by many operators;
- emphasis by operators on generating revenue from existing customers, rather than from new customers through new construction or network upgrades;
- a reduction in the amount of capital available to finance projects of our customers and potential customers;
- proposed and completed business combinations and divestitures by our customers and the length of regulatory review thereof; and
- bankruptcies and financial restructuring of major customers.

The financial difficulties of certain of our customers and changes in our customers' deployment plans have adversely affected our business in the past. In 2008 and 2009, economic conditions in many of the countries in which we sell products were very weak, and global economic conditions and financial markets experienced a severe downturn. The downturn stemmed from a multitude of factors, including adverse credit conditions, slower economic activity, concerns about inflation and deflation, rapid changes in foreign exchange rates, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. Although there was an increase in global economic activity in 2010 and the first six months of 2011, economic growth appears to have become sluggish in some geographies during the quarter ended September 30, 2011 and may be sluggish in many geographies during the balance of 2011 and possibly beyond. The severity or length of time that economic and financial market conditions may be sluggish, whether certain or all of such adverse factors will persist, or whether a severe down turn may reoccur in the U.S. and in other countries, is unknown. During challenging or uncertain economic times, and particularly in tight credit markets, many customers may delay or reduce capital expenditures, which in turn often results in lower demand for our products.

Further, we have a number of international customers to whom sales are denominated in U.S. dollars. The value of the U.S. dollar fluctuates significantly against many foreign currencies, which includes the local currencies of many of our international customers. If the U.S. dollar appreciates relative to the local currencies of our customers, then the prices of our products correspondingly increase for such customers. Such an effect could adversely impact sales of our products to such customers and result in longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition in the affected countries. Further, if the U.S. dollar were to weaken against many major currencies, there can be no assurance that a weaker dollar would lead to growth in capital spending.

In addition, industry consolidation has in the past constrained, and may in the future constrain, capital spending by our customers. Further, if our product portfolio and product development plans do not position us well to capture an increased portion of the capital spending of customers in the markets on which we focus, our revenue may decline.

As a result of these capital spending issues, we may not be able to maintain or increase our revenue in the future, and our operating results, financial condition and cash flows could be materially and adversely affected.

The markets in which we operate are intensely competitive.

The markets for our products are extremely competitive and have been characterized by rapid technological change and declining average sales prices in the past. Pressure on average sales prices was particularly severe during previous economic downturns as equipment suppliers competed aggressively for customers' reduced capital spending, and we experienced similar pressure during the economic slowdown in 2008 and 2009.

In the video processing solutions market, we compete broadly with products from vertically integrated system suppliers, including Motorola, Cisco Systems, and Ericsson, and, in certain product lines, with a number of smaller companies. Our principal competitors for our production and playout products are Harris, Grass Valley, SeaChange and Avid. Our principal competitors for edge and access products include Cisco Systems, Motorola and Arris.

Many of our competitors are substantially larger, and have greater financial, technical, marketing and other resources, than us. Many of these large enterprises are in a better position to withstand any significant reduction in capital spending by customers in our markets. They often have broader product lines and market focus, and may not be as susceptible to downturns in a particular market. These competitors may also be able to bundle their products together to meet the needs of a particular customer, and may be capable of delivering more complete solutions than we are able to provide. To the extent large enterprises that currently do not compete directly with us choose to enter our markets by acquisition or otherwise, competition would likely intensify.

Further, some of our competitors that have greater financial resources have offered, and in the future may offer, their products at lower prices than we offer for our competing products or more attractive financing terms, which has in the past, and may in the future, cause us to lose sales opportunities and the resulting revenue or to reduce our prices in response to that competition. Reductions in prices for any of our products could materially and adversely affect our operating margins and revenue. In addition, many of our competitors have been in operation longer than we have and, therefore, have more long-standing and established relationships with domestic and foreign customers, making it difficult for us to sell to those customers.

If any of our competitors' products or technologies were to become the industry standard, our business would be seriously harmed. If our competitors are successful in bringing their products to market earlier than us, or if these products are more technologically capable than ours, our revenue could be materially and adversely affected. In addition, certain companies that have not had a large presence in the broadband communications equipment market have begun to expand their presence in this market through mergers and acquisitions. The continued consolidation of our competitors could have a significant negative impact on our business. Further, our competitors, particularly companies that offer products that are competitive with our digital video systems, may bundle their products or incorporate functionality into existing products in a manner that discourages users from purchasing our products or which may require us to lower our selling prices, resulting in lower revenues and decreased gross margins.

If we are unable to compete at the same level as we have in the past, in any of our markets, or are forced to reduce the prices of our products in order to continue to be competitive, our operating results, financial condition and cash flows would be materially and adversely affected.

We need to develop and introduce new and enhanced products in a timely manner to meet the needs of our customers and to remain competitive.

All of the markets we address are characterized by continuing technological advancement, changes in customer requirements and evolving industry standards. To compete successfully, we must continually design, develop, manufacture and sell new or enhanced products that provide increasingly higher levels of performance and reliability and meet our customers changing needs. However, we may not be successful in those efforts if, among other things, our products:

- are not cost effective;
- are not brought to market in a timely manner;
- are not in accordance with evolving industry standards and architectures;
- fail to meet market acceptance or customer requirements; or
- are ahead of their market.

We are currently developing and marketing products based on established video compression standards. Encoding products based on the MPEG-2 compression standards have historically represented a significant portion of our revenue. Other standards, such as MPEG-4 AVC/H.264, that have been adopted provide significantly greater compression efficiency, thereby making more bandwidth available to operators. The availability of more bandwidth is particularly important to those operators seeking to launch, or expand, HDTV services. We have developed and launched products, including HD encoders and transcoders, based on these new standards in order to remain competitive, and are continuing to devote considerable resources to these efforts. In addition, we have launched an encoding platform that is capable of being configured for both MPEG-2 and MPEG-4, in both standard definition and HD formats. At the same time, we need to devote development resources to the existing MPEG-2 standard that many of our customers continue to require. There can be no assurance that these efforts will be successful in the near future, or at all, or that our competitors will not take significant market share in HD encoding or transcoding.

In addition, our customers are paying more attention to audio products and features than they have in the past. This enhanced attention to audio is likely to result in additional product requirements and the related need for more development and support staff with audio expertise and training. We cannot provide assurances that our efforts to develop enhanced audio products and features will be successful in the near future, or at all.

In order to successfully develop and market certain of our planned products, we may be required to enter into technology development or licensing agreements with third parties. We cannot provide assurances that we will be able to timely enter into any necessary technology development or licensing agreements on reasonable terms, or at all.

If we fail to develop and market new and enhanced products, our operating results, financial condition and cash flows could be materially and adversely affected.

We depend significantly on our international revenue and are subject to the risks associated with international operations, which may negatively affect our operating results.

Revenue derived from customers outside of the U.S. in the nine months ended September 30, 2011 and in 2010 and 2009 represented approximately 55%, 50% and 49% of our revenue, respectively. We expect that international revenue will continue to represent a similar and growing percentage of our annual revenue for the foreseeable future. Furthermore, most of our contract manufacturing occurs overseas. Our international operations, the international operations of our contract manufacturers and our efforts to maintain and increase revenue in international markets are subject to a number of risks, which are generally greater with respect to emerging market countries, including the impact on our business and operating results of:

- a slowdown or leveling off in international economies, which may adversely affect our customers' capital spending;
- fluctuations in currency exchange rates;
- changes in foreign government regulations and telecommunications standards;
- import and export license requirements, tariffs, taxes and other trade barriers;
- a significant reliance on distributors, resellers and other third parties to sell our products and solutions, particularly in emerging market countries;
- availability of credit, particularly in emerging market countries;
- difficulty in collecting accounts receivable, especially from smaller customers and resellers, particularly in emerging market countries;
- compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, particularly in emerging market countries;
- compliance with the U.K. Bribery Act, particularly in emerging market countries;
- the burden of complying with a wide variety of foreign laws, treaties and technical standards;

- fulfilling “country of origin” requirements for our products for certain customers;
- difficulty in staffing and managing foreign operations;
- political and economic instability, including risks related to terrorist activity, particularly in emerging market countries;
- changes in economic policies by foreign governments;
- lack of basic infrastructure, particularly in emerging market countries; and
- impact of the recent escalating social and political unrest in the Middle East and resulting regime changes.

In the past, certain of our international customers accumulated significant levels of debt and engaged in reorganizations and financial restructurings, including bankruptcy proceedings. Even where these restructurings have been completed, in some cases these customers have not been in a position to purchase new equipment at levels we had seen in the past.

While our international revenue and operating expenses have typically been denominated in U.S. dollars, fluctuations in currency exchange rates could cause our products to become relatively more expensive to customers in a particular country, leading to a reduction in revenue or profitability from sales in that country. A portion of our European business is denominated in Euros, which subjects us to increased foreign currency risk. Gains and losses on the conversion to U.S. dollars of accounts receivable, accounts payable and other monetary assets and liabilities arising from international operations may contribute to fluctuations in operating results.

Furthermore, payment cycles for international customers are typically longer than those for customers in the U.S. Unpredictable payment cycles could cause us to fail to meet or exceed the expectations of security analysts and investors for any given period.

Our operations outside the United States also require us to comply with a number of United States and international regulations. For example, our operations in countries outside the United States are subject to the FCPA and similar laws, which prohibits United States companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals, in their official capacity, to help obtain or retain business, direct business to any person or corporate entity or obtain any unfair advantage. Our activities in countries outside the United States create the inherent risk of unauthorized payments or offers of payments by one of our employees or agents, including those companies to which we outsource certain of our business operations, which could be in violation of the FCPA, even though these parties are not always subject to our control. We have internal control policies and procedures, and have implemented training and compliance programs for our employees and agents, with respect to the FCPA. However, we cannot assure you that our policies, procedures and programs will prevent violations of the FCPA or similar laws by our employees or agents, particularly in emerging market countries, and as we expand our international operations. Any such violation, even if prohibited by our policies, could result in criminal or civil sanctions against us.

The effect of one or more of these international risks could have a material and adverse effect on our business, financial condition, operating results and cash flows.

Our customer base is concentrated and we are regularly involved in relatively large transactions. The loss of one or more of our key customers, or a failure to diversify our customer base, as well as a decrease in the number of such larger transactions, could harm our business.

Historically, a majority of our revenue has been derived from relatively few customers, due in part to the consolidation of the ownership of cable television and direct broadcast satellite system companies. However, in the last three years, revenue from our ten largest customers has decreased as a percentage of revenue, due to our growing customer base, in part as a result of the acquisitions of Scopus and Omneon. Sales to our ten largest customers in the nine months ended September 30, 2011 and in 2010 and 2009 accounted for approximately 37%, 44% and 47% of revenue, respectively. Although we are attempting to broaden our customer base by penetrating new markets and further expanding internationally, we expect to see continuing industry consolidation and customer concentration.

In the nine months ended September 30, 2011 and in 2010 and 2009, revenue from Comcast accounted for approximately 11%, 17% and 16%, respectively, of our revenue. The loss of Comcast or any other significant customer, any material reduction in orders by Comcast or any significant customer, or our failure to qualify our new products with a significant customer could materially and adversely affect our operating results, financial condition and cash flows. In addition, we are involved in most quarters in one or more relatively large individual transactions, including, from time to time, projects in which we act much like a systems integrator. A decrease in the number of the relatively larger individual transactions in which we are involved in any quarter could adversely affect our operating results for that quarter.

In addition, historically, we have been dependent upon capital spending in the cable and satellite industry. We are attempting to further diversify our customer base beyond cable and satellite customers, including to the telco and broadcast and media markets. Several major telcos have rebuilt or are upgrading their networks to offer bundled video, voice and data services. In order to be successful in this market, we may need to continue to build alliances with telco equipment manufacturers, adapt our products for telco applications, take orders at prices resulting in lower margins, and build internal expertise to handle the particular contractual and technical demands of the telco industry. In addition, telco video deployments, including recent trials of mobile video services, are subject to delays in completion, as video processing technologies and video business models are relatively new to most telcos and many of their largest suppliers. Implementation issues with our products or those of other vendors have caused, and may continue to cause, delays in project completion for our customers and delay our recognition of revenue.

As a result of these and other factors, we may be unable to increase our revenues from telco and broadcast and media customers and other markets, or to do so profitably, and any failure to increase revenues and profits from these customers could materially and adversely affect our operating results, financial condition and cash flows.

If we do not realize improvement in our operating results and other benefits expected from our acquisition of Omneon, our operating results may be adversely affected and our stock price could decline.

Our September 2010 acquisition of Omneon, a private, venture-backed company specializing in file-based infrastructure for the production, preparation and playout of video content, involves the integration of a business that had previously operated independently. The integration of a previously independent company into the acquiring company's operations is a challenging, time-consuming and costly process. While the integration process for Omneon began in September 2010, when the Omneon acquisition was consummated, it may take additional time to complete the process fully. It is possible that the process of fully integrating Omneon could result in our inability to fully realize the expected synergies and other benefits of the acquisition, the loss of key employees, the disruption of our ongoing businesses and that of Omneon, and inconsistencies in standards, controls, procedures, and policies that adversely affect our ability to maintain relationships with customers, suppliers, and employees, and would involve many of the other risks of any acquisition described in the risk factor concerning acquisitions on page 47. In addition, the successful combination of the companies requires the dedication of significant management resources, which could divert attention from the day-to-day business of the combined company. There can be no assurance that these challenges will be met, and that we will realize the anticipated benefits from the acquisition of Omneon, on a timely basis or at all. If we are unable to realize these benefits, our goal of expanding into the markets on which Omneon focuses and our operating results, in general, may be adversely affected.

Our future growth depends on market acceptance of several broadband services, on the adoption of new broadband technologies and on several other broadband industry trends.

Future demand for many of our products will depend significantly on the growing market acceptance of emerging broadband services, including digital video, VOD, HDTV, IPTV, mobile video services (particularly streaming to tablet computers and other mobile devices), and very high-speed data services. The market demand for such emerging services is rapidly growing, with many de facto or proprietary systems in use, which increases the challenge of delivering interoperable products intended to address the requirements of such services.

The effective delivery of these services will depend, in part, on a variety of new network architectures, standards and devices, such as:

- video compression standards, such as MPEG-4 AVC/H.264, for both standard definition and high definition services;
- fiber to the premises, or FTTP, and digital subscriber line, or DSL, networks designed to facilitate the delivery of video services by telcos;
- the greater use of protocols such as IP;
- the further adoption of bandwidth-optimization techniques, such as switched digital video and DOCSIS 3.0; and
- the introduction of new consumer devices, such as advanced set-top boxes, personal video recorders (or PVRs), iPads and other tablet computers, and a variety of "smartphone" mobile devices.

If adoption of these emerging services and/or technologies is not as widespread or as rapid as we expect, or if we are unable to develop new products based on these technologies on a timely basis, our revenue will be materially and adversely affected.

Furthermore, other technological, industry and regulatory trends and requirements will affect the growth of our business. These trends and requirements include the following:

- convergence, or the need of many network operators to deliver a package of video, voice and data services to consumers, including mobile delivery options;
- the increasing availability of traditional broadcast video content on the Internet;
- the entry of telcos into the video business;
- the emergence of ATSC standards for mobile handheld as a viable content delivery system;
- the use of digital video by businesses, governments and educational institutions;
- efforts by regulators and governments in the U.S. and abroad to encourage the adoption of broadband and digital technologies;
- increased consumer interest in 3D television and content;
- the need to develop partnerships with other companies involved in the new broadband services;
- the extent and nature of regulatory attitudes towards such issues as network neutrality, competition between operators, access by third parties to networks of other operators, local franchising requirements for telcos to offer video, and other new services, such as mobile video; and
- the outcome of litigation and negotiations between content owners and service providers regarding rights of service providers to store and distribute recorded broadcast content, which outcomes may drive adoption of one technology over another in some cases.

If we fail to recognize and respond to these trends, by timely developing products, features and services required by these trends, we are likely to lose revenue opportunities and our operating results, financial condition and cash flows could be materially and adversely affected.

The Company's operating results could be adversely affected by natural disasters affecting the Company or impacting our third-party manufacturers, suppliers, distributors or customers.

Our headquarters and the majority of our operations are located in California, which is prone to earthquakes. In the event that any of our business centers are adversely affected by an earthquake or by any other natural disaster, we may sustain damage to our operations and properties and suffer significant financial losses.

We rely on third-party manufacturers for the production of most of our products. Any significant disruption in the business or operations of such manufacturers or of our suppliers could adversely impact our business. Our principal third-party manufacturer and several of our suppliers, distributors and customers have operations in locations that are subject to natural disasters, such as severe weather and earthquakes, which could disrupt their operations and, in turn, our operations. In addition, if there is a major earthquake or other natural disaster in any of the locations in which our significant customers are located, we face the risk that our customers may incur losses, or sustained business interruption and/or loss, which may materially impair their ability to continue their purchase of products from us. Accordingly, a major earthquake or other natural disaster in the markets in which we, or our third-party manufacturers, suppliers or customers, operate could have a material and adverse effect on our business, operating results, cash flows and financial condition.

For example, we expect to be adversely affected by the recent flooding in Thailand. It is estimated that approximately 40% of the disk drives produced in the world, and an even greater percentage of the components for disk drives, are produced in Thailand. The flooding has already significantly disrupted most of the disk drive and component manufacturing, as well as transportation, logistics, power generation and the availability of labor, in Thailand. The impact of the flooding on the Thailand disk drives and component industries is presently projected to adversely affect the supply of disk drives through mid-2012.

Harmonic uses disk drives in several of its products. The Company's principal supplier of disk drives, which is estimated to produce approximately 60% of its disk drives in Thailand, has disclosed that it will be unable to produce drives in Thailand for the balance of 2011 and into the first quarter of 2012 and possibly beyond.

As a result, Harmonic is in the process of attempting to secure drives in the open market to meet its presently unfulfilled, anticipated needs in the fourth quarter of 2011 ("Q4") and first quarter of 2012 ("Q1"). Although no assurances can be given, the Company presently expects to be able to cover all of such needs for Q4 on a timely basis. However, the Company cannot yet determine whether it will be able to fully source its Q1 projected needs for drives on a timely basis. If the Company is unable to meet fully its Q1 projected needs for drives on a timely basis, it will not be able to manufacture the affected products in sufficient quantities to meet all of its projected demand during Q1. Further, the Company is being required to pay premium pricing for purchases of drives in the open market, and it is expected that the additional expense for those drives will increase its product costs in each of Q4 and Q1 and possibly beyond.

In addition, Harmonic sources optical lasers for one of its products from a Thailand manufacturer whose operations have been shut down by the flooding. Although Harmonic maintains a substantial supply of such lasers in inventory, the Company has not yet qualified an alternative source for additional lasers and expects that, even if it is able to do so in the near future, it will be difficult to source timely its presently unfulfilled, anticipated needs for such lasers in Q4 and its projected needs for such lasers in Q1. It is also possible that it will experience increased product costs as a result of premium pricing for such lasers. Further, if it is unable to secure its presently unfulfilled, anticipated or projected needs for such lasers until late 2011 or 2012, it would not be able to manufacture the affected product in Q4 and possibly Q1 in sufficient quantities to meet its present and projected demand during those quarters.

If Harmonic is unable to manufacture and ship material quantities of an affected product when required in Q4, Q1 and beyond, its revenue from the affected product line for the respective period would be materially and adversely affected. Further, the Company presently expects that its inability in Q4 to manufacturer and ship projected orders for its product that includes an optical laser as a component could reduce the Company's potential Q4 revenue by as much as $2,000,000.

We purchase several key components, subassemblies and modules used in the manufacture or integration of our products from sole or limited sources, and we are increasingly dependent on contract manufacturers and other subcontractors.

Many components, subassemblies and modules necessary for the manufacture or integration of our products are obtained from a sole supplier or a limited group of suppliers. For example, we depend on a small private company for certain video encoding chips which are incorporated into several products. Our reliance on sole or limited suppliers, particularly foreign suppliers, and our increasing reliance on contractors for manufacturing and installation, involves several risks, including a potential inability to obtain an adequate supply of required components, subassemblies or modules, reduced control over costs, quality and timely delivery of components, subassemblies or modules and timely installation of products. In particular, certain optical components have in the past been in short supply and are available only from a small number of suppliers, including sole source suppliers. These risks could be heightened during a substantial economic slowdown, because our suppliers and subcontractors are more likely to experience adverse changes in their financial condition and operations during such a period. While we expend resources to qualify additional component sources, consolidation of suppliers and the small number of viable alternatives have limited the results of these efforts. Managing our supplier and contractor relationships is particularly difficult during time periods in which we introduce new products and during time periods in which demand for our products is increasing, especially if demand increases more quickly than we expect.

From time to time we assess our relationship with our contract manufacturers, and we do not generally maintain long-term agreements with any of our suppliers or contract manufacturers. Plexus Services Corp., which manufactures our products at its facilities in Malaysia, acts as our primary contract manufacturer, and currently provides us with a majority of the products that we purchase from our contract manufacturers. Our agreement with Plexus has automatic annual renewals, unless prior notice is given by either party, and has been automatically renewed until October 2012.

Since October 2009, most of the products previously manufactured by our Israeli operations have been outsourced to third party manufacturers located in Israel. Our ability to improve production efficiency with respect to that business may be limited by the terms of research grants that we received from the Israeli Office of the Chief Scientist, or OCS, an arm of the Israeli government. These grants restrict the transfer outside of Israel of intellectual property developed with funding from the OCS, and also limit the manufacturing outside of Israel of products containing such intellectual property.

Difficulties in managing relationships with any of our current contract manufacturers, particularly Plexus, that manufacture our products off-shore, could impede our ability to meet our customers' requirements and adversely affect our operating results. An inability to obtain adequate and timely deliveries, or any other circumstance that would require us to seek alternative sources of supply, could negatively affect our ability to ship our products on a timely basis, which could damage relationships with current and prospective customers and harm our business and materially and adversely affect our revenues. We attempt to limit this risk by maintaining safety stocks of certain components, subassemblies and modules. Recent increases in demand on our suppliers and subcontractors from other parties have caused sporadic shortages of certain components and products. In response, we have increased our inventories of certain components and products and expedited shipments of our products when necessary, which has increased our costs. As a result of this investment in inventories, we have in the past been, and in the future may be, subject to risk of excessive or obsolete inventories, which, despite our use of a demand order fulfillment model, could materially and adversely affect our business, operating results, financial position and cash flows. In this regard, our gross margins and operating results have, in the past, been adversely affected by significant excess and obsolete inventory charges.

Our operating results are likely to fluctuate significantly and, as a result, may fail to meet or exceed the expectations of securities analysts or investors, causing our stock price to decline.

Our operating results have fluctuated in the past and are likely to continue to fluctuate in the future, on an annual and a quarterly basis, as a result of several factors, many of which are outside of our control. Some of the factors that may cause these fluctuations include:

- the level and timing of capital spending of our customers, both in the U.S. and in foreign markets, due in part to access to financing, including credit, for capital spending;
- economic and financial conditions specific to each of the cable, satellite and telco, and broadcast and media industries;
- changes in market demand for our products or our customer's services or products;
- the timing and amount of orders, especially from our significant customers;
- general economic and financial markets conditions;
- the timing of revenue recognition from solution contracts, which may span several quarters;
- increases and decreases in the number and size of relatively larger individual transactions, and projects in which we are involved, from quarter to quarter;
- the timing of revenue recognition on sales arrangements;
- the timing of acquisitions and the financial impact of such acquisitions;
- the timing of completion of our customers' projects;
- competitive market conditions, including pricing actions by our competitors;
- lack of predictability in our revenue cycles;
- the level and mix of our international revenue;
- new product introductions by our competitors or by us;
- changes in domestic and international regulatory environments affecting our business;
- market acceptance of our products, particularly our new products;

- impact of new revenue recognition accounting standards, some of which became effective in 2011;
- the evaluation of new services, new standards and system architectures by our customers;
- the cost and availability to us of components, subassemblies and modules;
- the mix of our customer base, by industry and size, and sales channels;
- the mix of our products sold and the effect it has on gross margins;
- changes in our operating and extraordinary expenses, such as litigation expenses and settlement costs;
- impairment of our goodwill and intangibles;
- the outcome of litigation;
- write-downs of inventory and investments;
- the impact of applicable accounting guidance that requires us to record the fair value of stock options, restricted stock units and employee stock purchase plan awards as compensation expense;
- changes in our effective federal tax rate, including as a result of changes in our valuation allowance against our deferred tax assets, and changes in our effective state tax rates, including as a result of apportionment;
- changes in our mix of domestic versus international revenue;
- changes to tax rules related to the deferral of foreign earnings and compliance with foreign tax rules;
- the impact of applicable accounting guidance on accounting for uncertainty in income taxes that requires us to establish reserves for uncertain tax positions and accrue potential tax penalties and interest;
- the impact of applicable accounting guidance on business combinations that requires us to record charges for certain acquisition related costs and expenses and generally to expense restructuring costs associated with a business combination subsequent to the acquisition date; and
- the timing of our development of custom products and software.

The timing of deployment of our products by our customers can be subject to a number of other risks, including the availability of skilled engineering and technical personnel, the availability of third party equipment and services, our customers' ability to negotiate and enter into rights agreements with video content owners that provide the customers with the right to deliver certain video content, and our customers' need for local franchise and licensing approvals.

We often recognize a substantial portion of our quarterly revenue in the last month of the quarter. We establish our expenditure levels for product development and other operating expenses based on projected revenue levels for a specified period, and expenses are relatively fixed in the short term. Accordingly, even small variations in timing of revenue, particularly from relatively large individual transactions, can cause significant fluctuations in operating results in a particular quarter.

As a result of these factors and other factors, our operating results in one or more future periods may fail to meet or exceed the expectations of securities analysts or investors. In that event, the trading price of our common stock would likely decline.

Fluctuations in our future effective tax rates could affect our future operating results, financial condition and cash flows.

We are required to periodically review our deferred tax assets and determine whether, based on available evidence, a valuation allowance is necessary. Accordingly, we have performed such evaluation, from time to time, based on historical evidence, trends in profitability, expectations of future taxable income and implemented tax planning strategies. In 2008, we determined that a valuation allowance was no longer necessary for substantially all of our U.S. deferred tax assets because, based on the available evidence, we concluded that realization of these net deferred tax assets was more likely than not. We continue to maintain a valuation allowance for certain foreign deferred tax assets, and recorded a valuation allowance on certain of our California deferred tax assets in the first quarter of 2009 as a result of our expectations of future usage of the California deferred tax assets. In the event, in the future, we determine an additional valuation allowance is necessary with respect to our U.S. and certain foreign deferred tax assets, we would incur a charge equal to the amount of the valuation allowance in the period in which we made such determination as a discrete item, and this could have a material and adverse effect on our operating results for such period.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We recognize potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. In the event we determine that it is appropriate to create a reserve or increase an existing reserve for any such potential liabilities, the amount of the additional reserve is charged as an expense in the period in which it is determined. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate tax assessment for the applicable period, a further charge to expense in the period such short fall is determined would result. Either such charge to expense could have a material and adverse effect on our results of operations for the applicable period. In addition, recent statements from the Internal Revenue Service have indicated their intent to seek greater disclosure by companies of their reserves for uncertain tax positions.

We have been notified by the Internal Revenue Service that our 2007, 2008, 2009 and 2010 U.S. corporate income tax return has been selected for audit. These audits commenced in the second quarter of 2011. If, upon the conclusion of these audits, the ultimate determination of taxes owed in the U.S. is for an amount in excess of the tax provision we have recorded in the applicable period, our overall tax expense, effective tax rate and operating results could be materially and adversely impacted in the period of adjustment.

We have requested an Advanced Pricing Agreement with the Internal Revenue Service regarding our non-exclusive license of our intellectual property rights to one of our international subsidiaries in 2008, and our sharing of research and development costs with our international subsidiaries. If the Internal Revenue Service is unwilling to enter into such agreement on substantially the terms we have proposed and we are ultimately forced to settle on terms that are unfavorable to us, we may be required to take a charge to expense, in the period of the settlement, arising from such unfavorable terms that could have a material and adverse effect on our operating results for such period. We completed the same non-exclusive license of Omneon intellectual property in the fourth quarter of 2010, and expect to request the Internal Revenue Service to enter into an Advanced Pricing Agreement with respect to the Omneon license, which will have the same risk to us as the Advanced Pricing Agreement we are presently negotiating.

We continue to be in the process of expanding our international operations and staffing to better support our expansion into international markets. This expansion involves the implementation of an international structure that includes, among other things, an international support center in Europe, a research and development cost-sharing arrangement, certain licenses and other contractual arrangements between us and our wholly-owned domestic and foreign subsidiaries. As a result of these changes, we anticipate that our consolidated pre-tax income will be subject to foreign tax at relatively lower tax rates when compared to the United States federal statutory tax rate and, as a consequence, our effective income tax rate is expected to be lower than the United States federal statutory rate.

Our future effective income tax rates could be adversely affected if tax authorities challenge our international tax structure or if the relative mix of United States and international income changes for any reason. Accordingly, there can be no assurance that our income tax rate will be less than the United States federal statutory rate in future periods.

We or our customers may face intellectual property infringement claims from third parties.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, leading companies in the telecommunications industry have extensive patent portfolios. From time to time, third parties have asserted, and may assert in the future, patent, copyright, trademark and other intellectual property rights against us or our customers. Our suppliers and their customers, including us, may have similar claims asserted against them. A number of third parties, including companies with greater financial and other resources than us, have asserted patent rights to technologies that are important to us. Any future intellectual property litigation, regardless of its outcome, could result in substantial expense and significant diversion of the efforts of our management and technical personnel. An adverse determination in any such proceeding could subject us to significant liabilities and temporary or permanent injunctions and require us to seek licenses from third parties or pay royalties that may be substantial. Furthermore, necessary licenses may not be available on terms satisfactory to us, or at all. An unfavorable outcome on any such litigation matter could require that we pay substantial damages, could require that we pay ongoing royalty payments or could prohibit us from selling certain of our products. Any such outcome could have a material and adverse effect on our business, operating results, financial condition and cash flows.

On October 29, 2011, Avid Technology, Inc. filed a complaint in the United States District Court for the District of Delaware alleging that our Omneon Media Grid product infringes two patents held by Avid. The complaint seeks injunctive relief and damages. We are currently evaluating our position with respect to these patents. At this time, we cannot predict the outcome of this matter. An unfavorable outcome of this matter could adversely affect our business, operating results, financial position and cash flows.

Our suppliers and customers may have intellectual property claims relating to our products asserted against them. We have agreed to indemnify some of our suppliers and most of our customers for patent infringement relating to our products. The scope of this indemnity varies, but, in some instances, includes indemnification for damages and expenses (including reasonable attorney's fees) incurred by the supplier or customer in connection with such claims. If a supplier or a customer seeks to enforce a claim for indemnification against us, we could incur significant costs defending such claim, the underlying claim or both. An adverse determination in either such proceeding could subject us to significant liabilities and have a material and adverse effect on our operating results, cash flows and financial condition.

We may be the subject of litigation which, if adversely determined, could harm our business and operating results.

In addition to the litigation discussed elsewhere herein, we may be subject to claims arising in the normal course of business. The costs of defending any litigation, whether in cash expenses or in management time, could harm our business and materially and adversely affect our operating results and cash flows. An unfavorable outcome on any litigation matter could require that we pay substantial damages, or, in connection with any intellectual property infringement claims, could require that we pay ongoing royalty payments or prohibit us from selling certain of our products. In addition, we may decide to settle any litigation, which could cause us to incur significant settlement costs. A settlement or an unfavorable outcome on any litigation matter could have a material and adverse affect on our business, operating results, financial condition and cash flows.

As an example, we have received letters from several of our customers, notifying us that the customer intends to exercise its indemnification rights in agreements between the customer and us with respect to a patent infringement claim brought against the customer that may cover products sold to the customer by Harmonic or its acquired companies. Many of these notices arise out of a spate of patent infringement claims, and related litigation, made by the Multimedia Patent Trust ("MPT"), an affiliate of Alcatel-Lucent, against end-users of products used in the industries we address. Any such litigation by MPT may be very expensive to defend, and there could be significant financial exposure to each of such customers if MPT is successful in such litigation or in extracting a settlement of such claims. Few of the notices we have received from a customer with respect to its indemnification rights related to the MPT litigation have demanded that we provide a defense for the customer against such claims or litigation, currently reimburse the customer for its costs of such defense, or pay any other specified sum to the customer. At this time, we cannot predict whether the claims by MPT are legitimate or actually cover any of our products, whether any of the claims may result in a settlement or judgment against a customer defendant, or whether we would have liability under our indemnification obligations for defense or settlement costs or damages paid by any customer defendant. In the event one or more of our customers makes an indemnification claim against us with respect to a specific amount of defense or settlement costs or damages it suffers as a result of such MPT claims or litigation, we could be obligated to pay amounts to such customers that would materially and adversely affect our operating results, financial condition and cash flows.

We rely on distributors, value-added resellers and systems integrators for a significant portion of our revenue, and disruptions to, or our failure to develop and manage our relationships with these customers and the processes and procedures that support them could adversely affect our business.

We generate a significant portion of our revenue through sales to distributors, value-added resellers, or VARs, and systems integrators that assist us with fulfillment or installation obligations. We expect that these sales will continue to generate a significant percentage of our revenue in the future. Further, our reliance on VARs and systems integrators that specialize in video delivery solutions, products and services has increased since the completion of our acquisition of Omneon in September 2010. Accordingly, our future success is highly dependent upon establishing and maintaining successful relationships with a variety of channel partners.

We generally have no long-term contracts or minimum purchase commitments with any of our distributor, VAR or system integrator customers, and our contracts with these parties do not prohibit them from purchasing or offering products or services that compete with ours. Our competitors may provide incentives to any of our distributor, VAR and systems integrator customers to favor their products or, in effect, to prevent or reduce sales of our products. Any of our distributor, VAR or systems integrator customers may independently choose not to purchase or offer our products. Many of our distributors, VARs and system integrators are small, are based in a variety of international locations, and may have relatively unsophisticated processes and limited financial resources to conduct their business. Any significant disruption of our sales to these customers, including as a result of the inability or unwillingness of these customers to continue purchasing our products, or their failure to properly manage their business with respect to the purchase of and payment for our products, could materially and adversely affect our business, operating results, financial condition and cash flows. In addition, our failure to continue to establish or maintain successful relationships with distributor, VAR and systems integrator customers could likewise materially and adversely affect our business, operating results, financial condition and cash flows.

Changes in telecommunications legislation and regulations could harm our prospects and future revenue.

Changes in telecommunications legislation and regulations in the U.S. and other countries could affect the revenue from our products. In particular, regulations dealing with access by competitors to the networks of incumbent operators could slow or stop additional construction or expansion by these operators. Increased regulation of our customers' pricing or service offerings could limit their investments and, consequently, revenue from our products. The impact of new or revised legislation or regulations could have a material adverse effect on our business, operating results, financial condition and cash flows.

Newly adopted Federal laws will likely impact the demand for product features by our customers. These laws include the Commercial Advertisement Loudness Mitigation Act and the Twenty-First Century Communications and Video Accessibility Act of 2010, which deals with accessibility for the hearing and visually impaired. While we have added some features to our products in anticipation of these laws, others (driven by the regulatory process related to the laws) may require feature development on a schedule which may be inflexible and difficult to meet. This could result in our inability to develop other product features necessary for particular transactions at the same time, and thus we could lose some business and the related revenue.

We have made, and expect to continue to make, acquisitions, and any acquisition could disrupt our operations, cause dilution to our stockholders and materially and adversely affect our operating results and financial condition.

As part of our business strategy, from time to time we have acquired, and we continue to consider acquiring, businesses, technologies, assets and product lines that we believe complement or expand our existing business. Most recently, in September 2010, we completed the acquisition of Omneon, a privately-held company that provides broadcast video server and storage systems used for video production and play-to-air workflows. It is likely that we will make additional acquisitions, from time to time, in the future.

We may face challenges as a result of these acquisition activities, because such activities entail numerous risks, including:

- the possibility that an acquisition may not close because of, among other things, a failure of a party to satisfy the conditions to closing or an acquisition target entering into an alternative transaction;
- unanticipated costs or delays associated with the acquisition;
- difficulties in the assimilation and integration of acquired operations, technologies and/or products;
- the diversion of management's attention from the regular operations of the business during the acquisition process and the challenges of managing a larger and more geographically widespread operation and product portfolio after the closing of the acquisition;
- difficulties in integrating acquired companies' systems, controls, policies and procedures to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002;
- adverse effects on new and existing business relationships with suppliers, contract manufacturers and customers;
- channel conflicts and disputes between distributors and other partners of ours and the acquired companies;
- potential difficulties in completing projects associated with in-process research and development;
- risks associated with entering markets in which we may have no or limited prior experience;
- the potential loss of key employees of acquired businesses;
- difficulties in the assimilation of different corporate cultures and practices;
- difficulties in bringing acquired products and businesses into compliance with applicable legal requirements in jurisdictions in which we operate and sell products;

- substantial charges for acquisition costs, which are required to be expensed under accounting guidance on business combinations;
- substantial charges for the amortization of certain purchased intangible assets, deferred stock compensation or similar items;
- substantial impairments to goodwill or intangible assets in the event that an acquisition proves to be less valuable than the price we paid for it;
- delays in realizing, or failure to realize, the anticipated benefits of an acquisition; and
- the possibility that any acquisition may be viewed negatively by our customers or investors or the financial markets.

Competition within our industry for acquisitions of businesses, technologies, assets and product lines has been, and is likely to continue to be, intense. As such, even if we are able to identify an acquisition that we would like to consummate, we may not be able to complete the acquisition on commercially reasonable terms or because the target chooses to be acquired by another company. Furthermore, in the event that we are able to identify and consummate any future acquisitions, we may, in each of those acquisitions:

- issue equity securities which would dilute current stockholders' percentage ownership;
- incur substantial debt to finance the acquisition or assume substantial debt in the acquisition;
- incur significant acquisition-related expenses;
- assume substantial liabilities, contingent or otherwise; or
- expend significant cash.

These financing activities or expenditures could materially and adversely affect our operating results and financial condition or the price of our common stock, or both. Alternatively, due to difficulties in the capital or credit markets, we may be unable to secure capital on reasonable terms, or at all, necessary to complete an acquisition.

Moreover, even if we were to obtain benefits from acquisitions in the form of increased revenue and earnings per share, there may be a delay between the time the expenses associated with an acquisition are incurred and the time we recognize such benefits.

If we are unable to successfully address any of these risks, our business, operating results, financial condition and cash flows could be materially and adversely affected.

Conditions and changes in some national and global economic environments may adversely affect our business and financial results.

Adverse economic conditions in geographic markets in which we operate may harm our business. As described in the first risk factor in this section, economic conditions in some countries in which we sell products were weak in 2008, 2009 and the first half of 2010. That weakness was principally the result of global financial markets having experienced a severe downturn, stemming from a multitude of factors, including adverse credit conditions, slower economic activity, concerns about inflation and deflation, rapid changes in foreign exchange rates, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. The global economic slowdown led many of our customers to decrease their expenditures in 2009, and we believe that this slowdown caused certain of our customers to reduce or delay orders for our products. Many of our international customers have been exposed to tight credit markets and depreciating currencies, further restricting their ability to build out or upgrade their networks. Some customers have had difficulty in servicing or retiring existing debt, and the financial constraints on certain international customers required us to significantly increase our allowance for doubtful accounts in the fourth quarter of 2008. It is possible that such adverse economic conditions may return in the last quarter of 2011 or in 2012.

Beginning in the second quarter of 2011, the possible inability of some developed countries, including Greece, Italy, Ireland, Portugal and Spain, to meet their debt payment obligations has put further strain, both direct and indirect, on economic conditions in those countries, in Europe and in many other parts of the world, including the U.S. Further, the lowering of the U.S. government's credit rating has had an adverse affect on U.S. and international financial markets and may have a material and adverse affect on the U.S. economy and possibly the economies of most, if not all, of the other countries in the world, particularly if the credit rating is lowered again. The impact of either of the issues discussed above could have a material adverse effect on our business, operating results, financial condition and cash flows.

During challenging economic times, and in tight credit markets, many customers may delay or reduce capital expenditures. This could result in reductions in revenue of our products, longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition. If global economic and market conditions, or economic conditions in the U.S. or other key markets, deteriorate, we could experience a material and adverse effect on our business, results of operations, financial condition and cash flows.

Broadband communications markets are characterized by rapid technological change.

Broadband communications markets are subject to rapid changes, making it difficult to accurately predict the markets' future growth rates, sizes or technological directions. In view of the evolving nature of these markets, it is possible that pay TV service providers, broadcasters, content providers and other video production and delivery companies will decide to adopt alternative architectures, new business models, and/or technologies that are incompatible with our current or future products. In addition, successful new entrants into the media markets, both domestic and international, may impact existing industry business models, resulting in decreased spending by our existing customer base. Finally, decisions by customers to adopt new technologies or products are often delayed by extensive evaluation and qualification processes, which can result in delays in revenue from current and new products. If we are unable to design, develop, manufacture and sell products that incorporate, or are compatible with, these new architectures or technologies, our business, operating results, financial condition and cash flows will be materially and adversely affected.

In order to manage our growth, we must be successful in addressing management succession issues and attracting and retaining qualified personnel.

Our future success will depend, to a significant extent, on the ability of our management to operate effectively, both individually and as a group. We must successfully manage transition and replacement issues that may result from the departure or retirement of members of our executive management, whether in the context of an acquisition or otherwise. We cannot provide assurances that changes of management personnel in the future would not cause disruption to operations or customer relationships or a decline in our operating results.

We are also dependent on our ability to retain and motivate our existing highly qualified personnel, in addition to attracting new highly qualified personnel. Competition for qualified management, technical and other personnel is often intense, and we may not be successful in attracting and retaining such personnel. Competitors and others have in the past attempted, and are likely in the future to attempt, to recruit our employees. While our employees are required to sign standard agreements concerning confidentiality and ownership of inventions, we generally do not have employment contracts or non-competition agreements with any of our personnel. The loss of the services of any of our key personnel, the inability to attract or retain highly qualified personnel in the future or delays in hiring such personnel, particularly senior management and engineers and other technical personnel, could negatively affect our business and operating results.

We may need additional capital in the future and may not be able to secure adequate funds on terms acceptable to us.

We have been engaged in the design, manufacture and sale of a variety of video products and system solutions since inception, which has required, and will continue to require, significant research and development expenditures. We have generated substantial operating losses from the time we began operations in 1988. These losses have had an adverse effect on our stockholders' equity and working capital. As of December 31, 2010, we had an accumulated deficit of $1.9 billion.

In September 2010, we completed the acquisition of Omneon. The purchase price was approximately $251.3 million, which included approximately $153.3 million in cash, net of $40.5 million of cash acquired. The cash portion of the purchase price was paid from then existing cash balances.

Taking into account the acquisition of Omneon and the use of approximately $153.3 million of cash to complete the transaction, we believe that our existing cash and short-term investments of $140.9 million, at September 30, 2011, will satisfy our cash requirements for at least the next twelve months. However, we may need to raise additional funds if our expectations are incorrect, to take advantage of presently unanticipated strategic opportunities, to satisfy our other cash requirements from time to time, or to strengthen our financial position. Our ability to raise funds may be adversely affected by a number of factors, including factors beyond our control, such as weakness in the economic conditions in markets in which we sell our products and continued uncertainty in the financial, capital and credit markets. There can be no assurance that equity or debt financing will be available to us on reasonable terms, if at all, when and if it is needed.

In addition, we actively review potential acquisitions that would complement our existing product offerings, enhance our technical capabilities or expand our marketing and sales presence. Any future transaction of this nature could require potentially significant amounts of capital to finance the acquisition and related expenses, as well as to integrate operations following the acquisition, and could require us to issue our stock and dilute existing stockholders.

We may raise additional financing through public or private equity offerings, debt financings, or corporate partnership or licensing arrangements. To the extent we raise additional capital by issuing equity securities or convertible debt, our stockholders may experience dilution. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or products, or grant licenses on terms that are not favorable to us. To the extent we raise capital through debt financing arrangements, we may be required to pledge assets or enter into covenants that could restrict our operations or our ability to incur further indebtedness.

If adequate capital is not available, or is not available on reasonable terms, when needed, we may not be able to take advantage of acquisition or other market opportunities, to timely develop new products or to otherwise respond to competitive pressures.

We may not be able to effectively manage our operations.

In recent years, the Company has grown significantly, principally through acquisitions, and expanded our international operations. Upon the closing of our acquisition of Scopus in the first quarter of 2009, we added 221 employees, most of whom are based in Israel. Upon the closing of the acquisition of Omneon in September 2010, we added 286 employees, most of whom are based in the U.S. In addition, as of September 30, 2011, we have 447 employees in our international operations, representing approximately 39% of our worldwide workforce. Our ability to manage our business effectively in the future, including with respect to any future growth, the integration of recent and any future acquisitions, and the breadth of our international operations, will require us to train, motivate and manage our employees successfully, to attract and integrate new employees into our overall operations, to retain key employees and to continue to improve our operational, financial and management systems. There can be no assurances that we will be successful in that regard, and our failure to effectively manage our operations could have a material and adverse effect on our business, operating results and financial condition.

Our failure to adequately protect our proprietary rights may adversely affect us.

As of September 30, 2011, we hold 57 issued U.S. patents and 19 issued foreign patents, and have a number of patent applications pending. Although we attempt to protect our intellectual property rights through patents, trademarks, copyrights, licensing arrangements, maintaining certain technology as trade secrets and other measures, we can give no assurances that any patent, trademark, copyright or other intellectual property rights owned by us will not be invalidated, circumvented or challenged, that such intellectual property rights will provide competitive advantages to us, or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all. We can give no assurances that others will not develop technologies that are similar or superior to our technologies, duplicate our technologies or design around the patents that we own. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries in which we do business or may do business in the future.

We believe that patents and patent applications are not currently significant to our business, and we do not rely on our patent portfolio to give us a competitive advantage over others in our industry. We believe that the future success of our business will depend on our ability to translate the technological expertise and innovation of our personnel into new and enhanced products. We generally enter into confidentiality or license agreements with our employees, consultants, and vendors and our customers, as needed, and generally limit access to, and distribution of, our proprietary information. Nevertheless, we cannot provide assurances that the steps taken by us will prevent misappropriation of our technology. In addition, we have taken in the past, and may take in the future, legal action to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of management time and other resources, and could materially and adversely affect our business, operating results, financial condition and cash flows.

In order to successfully develop and market certain of our planned products, we may be required to enter into technology development or licensing agreements with third parties. Although many companies are often willing to enter into technology development or licensing agreements, we cannot assure you that such agreements may be negotiated on reasonable terms, or at all. The failure to enter into technology development or licensing agreements, when necessary or desirable, could limit our ability to develop and market new products and could materially and adversely affect our business.

Our products include third-party technology and intellectual property, and our inability to use that technology in the future could harm our business.

We incorporate certain third-party technologies, including software programs, into our products, and intend to utilize additional third-party technologies in the future. Licenses to relevant third-party technologies or updates to those technologies may not continue to be available to us on commercially reasonable terms, or at all. In addition, the technologies that we license may not operate properly or as specified, and we may not be able to secure alternatives in a timely manner, either of which could harm our business. We could face delays in product releases until alternative technology can be identified, licensed or developed, and integrated into our products, if we are able to do so at all. These delays, or a failure to secure or develop adequate technology, could materially and adversely affect our business, operating results, financial condition and cash flows.

We face risks associated with having important facilities and resources located in Israel.

We maintain facilities in two locations in Israel with a total of 215 employees, or approximately 19% of our worldwide workforce, as of September 30, 2011. Our employees in Israel engage in a number of activities, including research and development, the development of, and supply chain management for, one product line, and sales activities.

We are directly influenced by the political, economic and military conditions affecting Israel. Any significant conflict involving Israel could have a direct effect on our business or that of our Israeli contract manufacturers, in the form of physical damage or injury, reluctance to travel within or to Israel by our Israeli and other employees or those of our subcontractors, or the loss of Israeli employees to active military duty. Most of our employees in Israel are currently obligated to perform annual reserve duty in the Israel Defense Forces, and several have been called for active military duty in recent years. In the event that more employees are called to active duty, certain of our research and development activities may be adversely affected, including significantly delayed. In addition, the interruption or curtailment of trade between Israel and its trading partners, as a result of terrorist attacks or hostilities, conflicts between Israel and any other Middle Eastern country or any other cause, could significantly harm our business. Current or future tensions in the Middle East could materially and adversely affect our business, results of operations and financial condition.

Further, the Israeli government grants that we received for research and development expenditures limit our ability to manufacture products and transfer technologies outside of Israel, and, if we fail to satisfy specified conditions in the grants, we may be required to refund such grants, together with interest and penalties, and may be subject to criminal charges.

We are subject to import and export controls that could subject us to liability or impair our ability to compete in international markets.

Our products are subject to U.S. export controls, and may be exported outside the United States only with the required level of export license or through an export license exception, in most cases because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain technology and have enacted laws that could limit our ability to distribute our products, or could limit our customers' ability to implement our products, in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers internationally.

In addition, we may be subject to customs duties that could have a significant adverse impact on our operating results or, if we are able to pass on the related costs in any particular situation, would increase the cost of the related product to our customers. As a result, the future imposition of significant increases in the level of customs duties or the creation of import quotas on our products in Europe or in other jurisdictions, or any of the limitations on international sales described above, could have a material adverse effect on our business, operating results, financial condition and cash flows. Further, some of our customers in Europe have been, or are being, audited by local governmental authorities regarding the tariff classifications used for importation of our products. Import duties and tariffs vary by country and a different tariff classification for any of our products may result in higher duties or tariffs, which could have an adverse impact on our operating results and potentially increase the cost of the related products to our customers.

The ongoing threat of terrorism and social and political instability have created uncertainty and may harm our business.

Conditions in the U.S. and global economies improved from mid-2010 to mid-2011, but remain uncertain. The terrorist attacks in the U.S. in 2001, subsequent terrorist attacks in other parts of the world, and the threat of future attacks have created many economic and political uncertainties that have adversely impacted the global economy and, as a result, have adversely affected our business. The long-term effects of such attacks, the threat of future attacks, the ongoing war on terrorism, and the recent increased social and political instability and regime changes, particularly in the Middle East, on our business and the global economy remain unknown. Such uncertainty has increased the price of certain commodities, particularly oil, which could have an indirect adverse impact on the cost of manufacturing and shipping our products. Moreover, the potential for future terrorist attacks, and increases in such social and political instability, make it difficult to estimate the long-term stability and strength of the U.S. and other economies, particularly those in certain emerging market countries and certain European countries, and the impact of resulting economic conditions on our business.

Negative conditions in the global credit and financial markets may impair the liquidity or the value of a portion of our investment portfolio.

The recent negative conditions in the global credit and financial markets have had an adverse impact on the liquidity of certain investments. In the event we need or desire to access funds from the short-term investments that we hold, it is possible that we may not be able to do so due to market conditions. If a buyer is found, but is unwilling to purchase the investments at par or our cost, we may incur a loss. Further, rating downgrades of the security issuer or the third parties insuring such investments may require us to adjust the carrying value of these investments through an impairment charge. For example, during 2008, we recorded an impairment charge of $0.8 million relating to an investment in an unsecured debt instrument of Lehman Brothers Holdings, Inc. Our inability to sell all or some of our short-term investments at par or our cost, or rating downgrades of issuers or insurers of these securities, could materially and adversely affect our operating results, financial condition and cash flows.

In addition, we invest our cash, cash equivalents and short-term investments in a variety of investment vehicles, in a number of countries, with, and in the custody of, financial institutions with high credit ratings. While our investment policy and strategy attempt to manage interest rate risk, limit credit risk, and ensure we only invest in what we view as very high-quality securities, the outlook for our investment holdings is dependent on general economic conditions, interest rate trends and volatility in the financial marketplace, which can all affect the income that we receive, the value of our investments and our ability to sell those investments.

We believe that our investment securities are carried at fair value. However, over time the economic and market environment in which we conduct business may provide us with additional insight regarding the fair value of certain securities in our portfolio that could change our judgment regarding impairment of those securities. This could result in unrealized or realized losses in our securities, relating to other than temporary declines, being charged against income. Given the current market conditions involved, there is continuing risk that further declines in fair value of our portfolio securities may occur and additional impairments may be charged to income in future periods.

If demand for our products increases more quickly than we expect, we may be unable to meet our customers' requirements.

If demand for our products increases, the difficulty of accurately forecasting our customers' requirements and meeting these requirements will increase. Forecasting to meet customers' needs and effectively managing our supply chain is particularly difficult in connection with newer products. Our ability to meet customer demand depends significantly on the availability of components and other materials, as well as the ability of our contract manufacturers to scale their production. Furthermore, we purchase several key components, subassemblies and modules used in the manufacture or integration of our products from sole or limited sources. Our ability to meet customer requirements depends in part on our ability to obtain sufficient volumes of these materials in a timely fashion. Increases in demand on our suppliers and subcontractors from other customers may cause sporadic shortages of certain components and products. In order to be able to respond to these issues, we have increased our inventories of certain components and products, particularly for our customers that order significant dollar amounts of our products, and expedited shipments of our products when necessary, which has increased our costs and could increase our risk of holding obsolete or excessive inventory. We also employ a demand order fulfillment model which is designed to reduce the effects of increases or decreases in demand for any products. Nevertheless, we may be unable to respond to customer demand that increases more quickly than we expect. If we fail to meet customers' supply expectations, our revenue would be adversely affected and we may lose business, which could materially and adversely affect our operating results, financial condition and cash flows.

We are subject to various laws and regulations related to the environment and potential climate change that could impose substantial costs upon us and may adversely affect our business, operating results and financial condition.

Our operations are regulated under various federal, state, local and international laws relating to the environment and potential climate change, including those governing the management, disposal and labeling of hazardous substances and wastes and the cleanup of contaminated sites. We could incur costs and fines, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. The ultimate costs to us under these laws and the timing of these costs are difficult to predict.

We also face increasing complexity in our product design as we adjust to new and future requirements relating to the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling, and disposal of certain products. For example, the European Parliament and the Council of the European Union have enacted the Waste Electrical and Electronic Equipment (WEEE) directive, which regulates the collection, recovery, and recycling of waste from electrical and electronic products, and the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) directive, which bans the use of certain hazardous materials, including lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBBs), and polybrominated diphenyl ethers (PBDEs) that exceed certain specified levels. Legislation similar to RoHS and WEEE has been or may be enacted in other jurisdictions, including in the United States, Japan and China. Our failure to comply with these laws could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in such regions and countries.

We also expect that our operations will be affected by other new environmental laws and regulations on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, and could require that we redesign or change how we manufacture our products, any of which could have a material and adverse effect on our operating results, financial condition and cash flows.

Some anti-takeover provisions contained in our certificate of incorporation, bylaws and stockholder rights plan, as well as provisions of Delaware law, could impair a takeover attempt.

We have provisions in our certificate of incorporation and bylaws that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our Board of Directors. These include provisions:

- authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call, and bring business before, special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board of Directors;
- controlling the procedures for conduct and scheduling of Board of Directors and stockholder meetings; and
- providing the Board of Directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

These provisions, alone or together, could delay hostile takeovers, changes in control of the Company or changes in our management.

In addition, we have adopted a stockholder rights plan. The rights are not intended to prevent a takeover, and we believe these rights will help us in our negotiations with any potential acquirers. However, if the Board of Directors believes that a particular acquisition of us is undesirable, the rights may have the effect of rendering more difficult or discouraging that acquisition. The rights would cause substantial dilution to a person or group that attempts to acquire us on terms, or in a manner, not approved by our Board of Directors, except pursuant to an offer conditioned upon redemption of the rights.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our certificate of incorporation or bylaws, our stockholder rights plan or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our common stock price may be extremely volatile, and the value of an investment in our stock may decline.

Our common stock price has been highly volatile. We expect that this volatility will continue in the future due to factors such as:

- general market and economic conditions;
- actual or anticipated variations in operating results;
- announcements of technological innovations, new products or new services by us or by our competitors or customers;
- changes in financial estimates or recommendations by stock market analysts regarding us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- announcements by our customers regarding end user market conditions and the status of existing and future infrastructure network deployments;
- additions or departures of key personnel; and
- future equity or debt offerings or our announcements of these offerings.

In addition, in recent years, the stock market in general, and the NASDAQ Stock Market and the securities of technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations have in the past, and may in the future, materially and adversely affect our stock price, regardless of our operating results. In these circumstances, investors may be unable to sell their shares of our common stock at or above their purchase price over the short term, or at all.

Our stock price may decline if additional shares are sold in the market or if analysts drop coverage of or downgrade our stock.

Future sales of substantial amounts of shares of our common stock by our existing stockholders in the public market, or the perception that these sales could occur, may cause the market price of our common stock to decline. In addition, we will be required to issue substantial amounts of additional shares upon exercise of stock options or grants of restricted stock units. Increased sales of our common stock in the market after exercise of outstanding stock options or grants of restricted stock units could exert downward pressure on our stock price. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem appropriate.

The trading market for our common stock relies in part on the availability of research and reports that third-party industry or securities analysts publish about us. If one or more of the analysts who do cover us downgrade our stock, our stock price may decline. If one or more of these analysts cease coverage of us, we could lose visibility in the market, which in turn could cause the liquidity of our stock and our stock price to decline.

We are exposed to additional costs and risks associated with complying with increasing regulation of corporate governance and disclosure standards.

We have been spending a substantial amount of management time and costly external resources to comply with changes in laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, SEC regulations and the NASDAQ Stock Market rules. In particular, Section 404 of the Sarbanes-Oxley Act requires management's annual review and evaluation of our internal control over financial reporting and attestation of the effectiveness of our internal control over financial reporting by our independent registered public accounting firm in connection with the filing of our Report on Form 10-K for each fiscal year. We have documented and tested our internal control systems and procedures and have made improvements in order for us to comply with the requirements of Section 404. This process has required us to hire additional personnel and outside advisory services and has resulted in significant additional expenses.

While our management's assessment of our internal control over financial reporting resulted in our conclusion that, as of December 31, 2010, our internal control over financial reporting was effective, and our independent registered public accounting firm has attested that our internal control over financial reporting was effective in all material respects as of December 31, 2010, we cannot predict the outcome of our testing and that of our independent registered public accounting firm in future periods. If we conclude in future periods that our internal control over financial reporting is not effective or if our independent registered public accounting firm is unable to provide an unqualified attestation as of future year-ends, we will incur substantial additional costs in an effort to correct such problems and investors may lose confidence in our financial statements, and the price of our stock will likely decrease in the short term, until we correct such problems, and perhaps in the long term, as well.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Index
10.48	Loan Agreement, dated August 26, 2011, with Silicon Valley Bank.
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer
32.2	Section 906 Certification of Principal Financial Officer
101***	The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in Extensible Business Reporting Language (XBRL) includes: Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the Three and Nine months ended September 30, 2011 and October 1, 2010, (iii) Condensed Consolidated Statements of Cash Flows for the Nine months ended September 30, 2011 and October 1, 2010, and (iv) Notes to Condensed Consolidated Financial Statements.
***	XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARMONIC INC.

By: /s/ Carolyn V. Aver
Carolyn V. Aver
Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: November 9, 2011

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "**Agreement**") dated as of August 26, 2011 (the "**Effective Date**") between **SILICON VALLEY BANK**, a California corporation ("**Bank**"), and **HARMONIC, INC.**, a Delaware corporation ("**Borrower**"), provides the terms on which Bank shall lend to Borrower and Borrower shall repay Bank. The parties agree as follows:

1. ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

2. LOAN AND TERMS OF PAYMENT

2.1 Promise to Pay. Borrower hereby unconditionally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

2.1.1 Revolving Advances.

(a) Availability. Subject to the terms and conditions of this Agreement, Bank shall make Advances not exceeding the Availability Amount. Amounts borrowed hereunder may be repaid and, prior to the Revolving Line Maturity Date, reborrowed, subject to the applicable terms and conditions precedent herein.

(b) Termination; Repayment. The Revolving Line terminates on the Revolving Line Maturity Date, when the principal amount of all Advances, the unpaid interest thereon, and all other Obligations relating to the Revolving Line shall be immediately due and payable.

2.1.2 Letters of Credit Sublimit.

(a) As part of the Revolving Line, Bank shall issue or have issued Letters of Credit denominated in United States Dollars and other currencies for Borrower's account. The aggregate Dollar Equivalent amount utilized for the issuance of Letters of Credit shall at all times reduce the amount otherwise available for Advances under the Revolving Line. The Dollar Equivalent of the face amount of outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve) may not exceed Ten Million Dollars ($10,000,000.00) minus (B) the sum of (i) all outstanding principal amounts of any Advances (including any amounts used for Cash Management Services), (ii) the Dollar Equivalent of the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve) and (iii) the FX Reserve.

(b) If, on the Revolving Line Maturity Date (or the effective date of any termination of this Agreement), there are any outstanding Letters of Credit, then on such date Borrower shall provide to Bank cash collateral in an amount equal to (i) 105% for Letters of Credit denominated in U.S. Dollars, and (ii) 110% of the Dollar Equivalent for Letters of Credit denominated in currency other than U.S. Dollars, of the face amount of all such Letters of Credit, plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment), to secure all of the Obligations relating to such Letters of Credit. All Letters of Credit shall be in form and substance acceptable to Bank in its sole discretion and shall be subject to the terms and conditions of Bank's standard Application and Letter of Credit Agreement (the "Letter of Credit Application"). Borrower agrees to execute any further documentation in connection with the Letters of Credit as Bank may reasonably request. Borrower further agrees to be bound by the regulations and interpretations of the issuer of any Letters of Credit guarantied by Bank and opened for Borrower's account or by Bank's interpretations of any Letter of Credit issued by Bank for Borrower's account, and Borrower understands and agrees that Bank shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following Borrower's instructions or those contained in the Letters of Credit or any modifications, amendments, or supplements thereto.

(c) The obligation of Borrower to immediately reimburse Bank for drawings made under Letters of Credit shall be absolute, unconditional, and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, such Letters of Credit, and the Letter of Credit Application.

(d) Borrower may request that Bank issue a Letter of Credit payable in a Foreign Currency. If a demand for payment is made under any such Letter of Credit, Bank shall treat such demand as an Advance to Borrower of the Dollar Equivalent of the amount thereof (plus fees and charges in connection therewith such as wire, cable, SWIFT or similar charges).

(e) To guard against fluctuations in currency exchange rates, upon the issuance of any Letter of Credit payable in a Foreign Currency, Bank shall create a reserve (the "Letter of Credit Reserve") under the Revolving Line in an amount equal to ten percent (10%) of the face amount of such Letter of Credit. The amount of the Letter of Credit Reserve may be adjusted by Bank from time to time to account for fluctuations in the exchange rate. The availability of funds under the Revolving Line shall be reduced by the amount of such Letter of Credit Reserve for as long as such Letter of Credit remains outstanding.

2.1.3 Foreign Exchange Sublimit. As part of the Revolving Line, Borrower may enter into foreign exchange contracts with Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency (each, a "FX Forward Contract") on a specified date (the "Settlement Date"). FX Forward Contracts shall have a Settlement Date of at least one (1) FX Business Day after the contract date and shall be subject to a reserve of ten percent (10%) of each outstanding FX Forward Contract (the "FX Reserve"). The aggregate amount of FX Forward Contracts at any one time may not exceed ten (10) times Ten Million Dollars ($10,000,000.00), minus the sum of (i) all outstanding principal amounts of any Advances (including any amounts used for Cash Management Services) and (ii) the Dollar Equivalent of the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve). The amount otherwise available for Credit Extensions under the Revolving Line shall be reduced by the FX Reserve. Any amounts needed to fully reimburse Bank for any amounts not paid by Borrower in connection with FX Forward Contracts will be treated as Advances under the Revolving Line and will accrue interest at the interest rate applicable to Advances.

2.1.4 Cash Management Services Sublimit. Borrower may use the Revolving Line for Bank's cash management services, which may include merchant services, direct deposit of payroll, business credit card, and check cashing services identified in Bank's various cash management services agreements (collectively, the "Cash Management Services"), in an aggregate amount not to exceed Ten Million Dollars ($10,000,000.00), minus the sum of (i) all outstanding principal amounts of any Advances, (ii) the Dollar Equivalent of the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve) and (iii) the FX Reserve. Any amounts Bank pays on behalf of Borrower for any Cash Management Services will be treated as Advances under the Revolving Line and will accrue interest at the interest rate applicable to Advances.

2.1.5 General Provisions Relating to the Advances. Each Advance in Dollars shall, at Borrower's option in accordance with the terms of this Agreement, be either in the form of a Prime Rate Advance or a LIBOR Advance; provided, that in no event shall Borrower maintain at any time LIBOR Advances having more than five (5) different Interest Periods. Borrower shall pay interest accrued on the Advances at the rates and in the manner set forth in Section 2.3(b).

2.2 Overadvances. If, at any time, the sum of (i) the outstanding principal amount of any Advances (including any amounts used for Cash Management Services), (ii) the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve), and (iii) the FX Reserve exceeds the Revolving Line, Borrower shall immediately pay to Bank in cash such excess.

2.3 Payment of Interest on the Credit Extensions.

(a) Computation of Interest. Interest on the Credit Extensions and all fees payable hereunder shall be computed on the basis of a 360-day year and the actual number of days elapsed in the period during which such interest accrues. In computing interest on any Credit Extension, the date of the making of such Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension.

(b) Interest; Payment. Each Advance shall bear interest on the outstanding principal amount thereof from the date when made, continued or converted until paid in full at a rate per annum equal to (i) for Prime Rate Advances, the Prime Rate plus the applicable Prime Rate Margin and (ii) for LIBOR Advances, the LIBOR Rate plus the applicable LIBOR Rate Margin. On and after the expiration of any Interest Period applicable to any LIBOR Advance outstanding on the date of occurrence of an Event of Default or acceleration of the Obligations, the Effective Amount of such LIBOR Advance shall, during the continuance of such Event of Default or after acceleration, bear interest at a rate per annum equal to the Prime Rate plus two percent (2.00%). Pursuant to the terms hereof, interest on each Advance shall be paid in arrears on each Interest Payment Date. Interest shall also be paid on the date of any prepayment of any Advance pursuant to this Agreement for the portion of any Advance so prepaid and upon payment (including prepayment) in full thereof. All accrued but unpaid interest on the Advances shall be due and payable on the Revolving Line Maturity Date.

(c) Default Rate. Except as otherwise provided in Section 2.3(b), upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate two percent (2.00%) above the rate that would otherwise be applicable thereto (the "Default Rate") unless Bank otherwise elects from time to time in its sole discretion to impose a smaller increase. Payment or acceptance of the increased interest provided in this Section 2.3(c) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(d) Prime Rate Advances. Each change in the interest rate of the Prime Rate Advances based on changes in the Prime Rate shall be effective on the effective date of such change and to the extent of such change.

(e) LIBOR Advances. The interest rate applicable to each LIBOR Advance shall be determined in accordance with Section 3.6(a). Subject to Sections 3.6 and 3.7, such rate shall apply during the entire Interest Period applicable to such LIBOR Advance, and interest calculated thereon shall be payable on the Interest Payment Date applicable to such LIBOR Advance. Debit of Accounts. Bank may debit any of Borrower's deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank when due. These debits shall not constitute a set-off.

(f) Interest Payment Date. Unless otherwise provided, interest is payable monthly on the first calendar day of each month.

2.4 Fees. Borrower shall pay to Bank:

(a) Revolving Line Fee. If, at any time, Borrower fails to maintain a minimum aggregate amount of Thirty Million Dollars ($30,000,000.00) of unrestricted funds on deposit with Bank, SVB Asset Management and/or SVB Securities and such failure continues for a period of ten (10) consecutive Business Days, Borrower shall pay to Bank a one-time fee of Ten Thousand Dollars ($10,000.00);

(b) Letter of Credit Fee. Bank's customary fees and expenses for the issuance or renewal of Letters of Credit, including, without limitation, a letter of credit fee of three-quarters of one percent (0.75%) per annum of the Dollar Equivalent of the face amount of each Letter of Credit issued, upon the issuance of such Letter of Credit, each anniversary of the issuance during the term of such Letter of Credit, and upon the renewal of such Letter of Credit by Bank; and

(c) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, within ten (10) Business Days after delivery of invoice to Borrower.

2.5 Payments; Application of Payments. All payments (including prepayments) to be made by Borrower under any Loan Document shall be made in immediately available funds in U.S. Dollars, without setoff or counterclaim, before 12:00 p.m. Pacific time on the date when due. Payments of principal and/or interest received after 12:00 p.m. Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.

3. <u>CONDITIONS OF LOANS</u>

3.1 Conditions Precedent to Initial Credit Extension. Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

(a) duly executed original signatures to the Loan Documents;

(b) duly executed original signatures to the completed Borrowing Resolutions for Borrower; and

(c) payment of the fees and Bank Expenses then due as specified in Section 2.4 hereof.

3.2 Conditions Precedent to all Credit Extensions. Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) except as otherwise provided in Section 3.5(a), timely receipt of an executed Notice of Borrowing;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the Notice of Borrowing and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension; and

(c) there has not been, in Bank's good faith business judgment, a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations (a "Material Adverse Change").

3.3 Covenant to Deliver. Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

3.4 Procedures for Borrowing.

(a) Subject to the prior satisfaction of all other applicable conditions to the making of an Advance set forth in this Agreement, each Advance shall be made upon Borrower's irrevocable written notice delivered to Bank in the form of a Notice of Borrowing, each executed by a Responsible Officer of Borrower or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Borrower will indemnify Bank for any loss Bank suffers due to such reliance. Such Notice of Borrowing must be received by Bank prior to 12:00 p.m. Pacific time, (i) at least three (3) Business Days prior to the requested Funding Date, in the case of LIBOR Advances, and (ii) on the requested Funding Date, in the case of Prime Rate Advances, specifying: (1) the amount of the Advance; (2) the requested Funding Date; (3) whether the Advance is to be comprised of LIBOR Advances or Prime Rate Advances; and (4) the duration of the Interest Period applicable to any such LIBOR Advances included in such notice; provided that if the Notice of Borrowing shall fail to specify the duration of the Interest Period for any Advance comprised of LIBOR Advances, such Interest Period shall be one (1) month.

(b) The proceeds of all such Advances will then be made available to Borrower on the Funding Date by Bank by transfer to the Designated Deposit Account and, subsequently, by wire transfer to such other account as Borrower may instruct in the Notice of Borrowing. No Advances shall be deemed made to Borrower, and no interest shall accrue on any such Advance, until the related funds have been deposited in the Designated Deposit Account.

3.5 Conversion and Continuation Elections.

(a) So long as (i) no Event of Default exists; (ii) Borrower shall not have sent any notice of termination of this Agreement; and (iii) Borrower shall have complied with such customary procedures as Bank has established from time to time for Borrower's requests for LIBOR Advances, Borrower may, upon irrevocable written notice to Bank:

(i) elect to convert on any Business Day, Prime Rate Advances into LIBOR Advances;

(ii) elect to continue on any Interest Payment Date any LIBOR Advances maturing on such Interest Payment Date; or

(iii) elect to convert on any Interest Payment Date any LIBOR Advances maturing on such Interest Payment Date into Prime Rate Advances.

(b) Borrower shall deliver a Notice of Conversion/Continuation in accordance with Section 10 to be received by Bank prior to 12:00 p.m. Pacific time (i) at least three (3) Business Days in advance of the Conversion Date or Continuation Date, if any Advances are to be converted into or continued as LIBOR Advances; and (ii) on the Conversion Date, if any Advances are to be converted into Prime Rate Advances, in each case specifying the:

(i) proposed Conversion Date or Continuation Date;

(ii) aggregate amount of the Advances to be converted or continued;

(iii) nature of the proposed conversion or continuation; and

(iv) duration of the requested Interest Period.

(c) If upon the expiration of any Interest Period applicable to any LIBOR Advances, Borrower shall have timely failed to select a new Interest Period to be applicable to such LIBOR Advances, Borrower shall be deemed to have elected to convert such LIBOR Advances into Prime Rate Advances.

(d) Any LIBOR Advances shall, at Bank's option, convert into Prime Rate Advances in the event that (i) an Event of Default shall exist, or (ii) the aggregate principal amount of the Prime Rate Advances which have been previously converted to LIBOR Advances, or the aggregate principal amount of existing LIBOR Advances continued, as the case may be, at the beginning of an Interest Period shall at any time during such Interest Period exceed the Revolving Line. Borrower agrees to pay Bank, upon demand by Bank (or Bank may, at its option, charge the Designated Deposit Account or any other account Borrower maintains with Bank) any amounts required to compensate Bank for any loss (including loss of anticipated profits), cost, or expense incurred by Bank as a result of the conversion of LIBOR Advances to Prime Rate Advances pursuant to this Section 3.6(d).

(e) Notwithstanding anything to the contrary contained herein, Bank shall not be required to purchase United States Dollar deposits in the London interbank market or other applicable LIBOR market to fund any LIBOR Advances, but the provisions hereof shall be deemed to apply as if Bank had purchased such deposits to fund the LIBOR Advances.

3.6 Special Provisions Governing LIBOR Advances. Notwithstanding any other provision of this Agreement to the contrary, the following provisions shall govern with respect to LIBOR Advances as to the matters covered:

(a) <u>Determination of Applicable Interest Rate</u>. As soon as practicable on each Interest Rate Determination Date, Bank shall determine (which determination shall, absent manifest error in calculation, be final, conclusive and binding upon all parties) the interest rate that shall apply to the LIBOR Advances for which an interest rate is then being determined for the applicable Interest Period and shall promptly give notice thereof (in writing or by telephone confirmed in writing) to Borrower.

(b) Inability to Determine Applicable Interest Rate. In the event that Bank shall have determined (which determination shall be final and conclusive and binding upon all parties hereto), on any Interest Rate Determination Date with respect to any LIBOR Advance, that by reason of circumstances affecting the London interbank market adequate and fair means do not exist for ascertaining the interest rate applicable to such Advance on the basis provided for in the definition of LIBOR, Bank shall on such date give notice (by facsimile or by telephone confirmed in writing) to Borrower of such determination, whereupon (i) no Advances may be made as, or converted to, LIBOR Advances until such time as Bank notifies Borrower that the circumstances giving rise to such notice no longer exist, and (ii) any Notice of Borrowing or Notice of Conversion/Continuation given by Borrower with respect to Advances in respect of which such determination was made shall be deemed to be rescinded by Borrower.

(c) Compensation for Breakage or Non-Commencement of Interest Periods. Borrower shall compensate Bank, upon written request by Bank (which request shall set forth the manner and method of computing such compensation), for all losses, expenses, unrealized gains and liabilities (including any interest paid by Bank to lenders of funds borrowed by it to make or carry its LIBOR Advances, any loss, expense or liability incurred by Bank in connection with the liquidation or re-employment of such funds, and, in the case of complete or partial principal payments or conversions of LIBOR Advances prior to the last day of the applicable Interest Period, any amount by which (A) the additional interest which would have been payable on the amount so prepaid or converted had it not been paid or converted until the last day of the applicable Interest Period exceeds (B) the interest which would have been recoverable by Bank by placing the amount so received on deposit in the certificate of deposit markets, the offshore currency markets, or United States Treasury investment products, as the case may be, for a period starting on the date on which it was so paid or converted and ending on the last day of such Interest Period at the interest rate determined by Bank in its reasonable discretion), if any, that Bank may incur: (i) if for any reason (other than a default by Bank or due to any failure of Bank to fund LIBOR Advances due to impracticability or illegality under Sections 3.7(d) and 3.7(e)) a borrowing or a conversion to or continuation of any LIBOR Advance does not occur on a date specified in a Notice of Borrowing or a Notice of Conversion/Continuation, as the case may be, or (ii) if for any reason (including voluntary or mandatory prepayment or acceleration) any complete or partial principal payment or any conversion of any of Borrower's LIBOR Advances occurs on a date prior to the last day of an Interest Period applicable to that Advance. Bank's determination as to such amount shall be conclusive absent manifest error. Borrower shall immediately notify Borrower's account officer at Bank if any of the situations described in (ii) above occur.

(d) Assumptions Concerning Funding of LIBOR Advances. Calculation of all amounts payable to Bank under this Section 3.6 and under Section 3.7 shall be made as though Bank had actually funded each of its relevant LIBOR Advances through the purchase of a Eurodollar deposit bearing interest at the rate obtained pursuant to the definition of LIBOR Rate in an amount equal to the amount of such LIBOR Advance and having a maturity comparable to the relevant Interest Period; provided, however, that Bank may fund each of its LIBOR Advances in any manner it sees fit and the foregoing assumptions shall be utilized only for the purposes of calculating amounts payable under this Section 3.6 and under Section 3.7.

(e) LIBOR Advances After Default. After the occurrence and during the continuance of an Event of Default, (i) Borrower may not elect to have an Advance be made or continued as, or converted to, a LIBOR Advance after the expiration of any Interest Period then in effect for such Advance and (ii) subject to the provisions of Section 3.6(c), any Notice of Conversion/Continuation given by Borrower with respect to a requested conversion/continuation that has not yet occurred shall, at Bank's option, be deemed to be rescinded by Borrower and be deemed a request to convert or continue Advances referred to therein as Prime Rate Advances.

3.7 Additional Requirements/Provisions Regarding LIBOR Advances.

(a) Borrower shall pay Bank, upon demand by Bank, from time to time such amounts as Bank may determine to be necessary to compensate it for any costs incurred by Bank that Bank determines are attributable to its making or maintaining of any amount receivable by Bank hereunder in respect of any LIBOR Advances relating thereto (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), in each case resulting from any Regulatory Change which:

(i) changes the basis of taxation of any amounts payable to Bank under this Agreement in respect of any LIBOR Advances (other than changes which affect taxes measured by or imposed on the overall net income of Bank by the jurisdiction in which Bank has its principal office);

(ii) imposes or modifies any reserve, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with, or other liabilities of Bank (including any LIBOR Advances or any deposits referred to in the definition of LIBOR); or

(iii) imposes any other condition affecting this Agreement (or any of such extensions of credit or liabilities).

Bank will notify Borrower of any event occurring after the Effective Date which will entitle Bank to compensation pursuant to this Section 3.7(a) as promptly as practicable after it obtains knowledge thereof and determines to request such compensation. Bank will furnish Borrower with a statement setting forth the basis and amount of each request by Bank for compensation under this Section 3.7(a). Determinations and allocations by Bank for purposes of this Section 3.7(a) of the effect of any Regulatory Change on its costs of maintaining its obligations to make LIBOR Advances, of making or maintaining LIBOR Advances, or on amounts receivable by it in respect of LIBOR Advances, and of the additional amounts required to compensate Bank in respect of any Additional Costs, shall be conclusive absent manifest error.

(b) If Bank shall determine that the adoption or implementation of any applicable law, rule, regulation, or treaty regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank, or comparable agency charged with the interpretation or administration thereof, or compliance by Bank (or its applicable lending office) with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on capital of Bank or any person or entity controlling Bank (a "Parent") as a consequence of its obligations hereunder to a level below that which Bank (or its Parent) could have achieved but for such adoption, change, or compliance (taking into consideration policies with respect to capital adequacy) by an amount deemed by Bank to be material, then from time to time, within five (5) days after demand by Bank, Borrower shall pay to Bank such additional amount or amounts as will compensate Bank for such reduction. A statement of Bank claiming compensation under this Section 3.7(b) and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive absent manifest error.

(c) If, at any time, Bank, in its sole and absolute discretion, determines that (i) the amount of LIBOR Advances for periods equal to the corresponding Interest Periods are not available to Bank in the offshore currency interbank markets, or (ii) LIBOR does not accurately reflect the cost to Bank of lending the LIBOR Advances, then Bank shall promptly give notice thereof to Borrower. Upon the giving of such notice, Bank's obligation to make the LIBOR Advances shall terminate; provided, however, LIBOR Advances shall not terminate if Bank and Borrower agree in writing to a different interest rate applicable to LIBOR Advances.

(d) If it shall become unlawful for Bank to continue to fund or maintain any LIBOR Advances, or to perform its obligations hereunder, upon demand by Bank, Borrower shall prepay the LIBOR Advances in full with accrued interest thereon and all other amounts payable by Borrower hereunder (including, without limitation, any amount payable in connection with such prepayment pursuant to Section 3.6(c)(ii)). Notwithstanding the foregoing, to the extent a determination by Bank as described above relates to a LIBOR Advance then being requested by Borrower pursuant to a Notice of Borrowing or a Notice of Conversion/Continuation, Borrower shall have the option, subject to the provisions of Section 3.6(c)(ii), to (i) rescind such Notice of Borrowing or Notice of Conversion/Continuation by giving notice (by facsimile or by telephone confirmed in writing) to Bank of such rescission on the date on which Bank gives notice of its determination as described above, or (ii) modify such Notice of Borrowing or Notice of Conversion/Continuation to obtain a Prime Rate Advance or to have outstanding Advances converted into or continued as Prime Rate Advances by giving notice (by facsimile or by telephone confirmed in writing) to Bank of such modification on the date on which Bank gives notice of its determination as described above.

4. RESERVED

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 Due Organization, Authorization; Power and Authority. Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a Material Adverse Change on Borrower's business.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect or (v) constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a Material Adverse Change on Borrower's business.

5.2 Intellectual Property. Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers in the ordinary course of business, (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to Borrower. Each Patent which it owns or purports to own and which is material to Borrower's business is valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a Material Adverse Change on Borrower's business.

5.3 Reserved.

5.4 Litigation. Except as shown on Schedule 5.4, there are no actions or proceedings pending or, to the knowledge of the Responsible Officers, threatened in writing by or against Borrower or any of its Subsidiaries in which a likely adverse decision could reasonably be expected to cause a Material Adverse Change.

5.5 Financial Statements; Financial Condition. All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been a Material Adverse Change in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.6 Solvency. The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.7 Regulatory Compliance. Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries is a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" as each term is defined and used in the Public Utility Holding Company Act of 2005. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to have a Material Adverse Change on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Government Authorities that are necessary to continue their respective businesses as currently conducted.

5.8 Subsidiaries; Investments. Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.9 Tax Returns and Payments; Pension Contributions. Except as specified in Schedule 5.9, or to the extent liability in excess of $5,000,000 in the aggregate is not reasonably likely to result, Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all federal, state, material local, and material foreign taxes, assessments, deposits and contributions owed by Borrower. Borrower may defer payment of any contested taxes, provided that Borrower (a) in good faith contests its obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (b) notifies Bank in writing of the commencement of, and any material development in, the proceedings, (c) posts bonds or takes any other steps required to prevent the governmental authority levying such contested taxes from obtaining a Lien other than a "Permitted Lien." Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

5.10 Use of Proceeds. Borrower shall use the proceeds of the Credit Extensions solely to fund its general business requirements and not for personal, family, household or agricultural purposes.

5.11 Full Disclosure. No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

5.12 Definition of "Knowledge." For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower's knowledge or awareness, to the "best of" Borrower's knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of the Responsible Officers.

6. AFFIRMATIVE COVENANTS

Borrower shall do all of the following:

6.1 Government Compliance. Maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a Material Adverse Change on Borrower's business or operations. Borrower shall comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a Material Adverse Change on Borrower's business.

6.2 Financial Statements, Reports, Certificates. Deliver to Bank:

(a) Quarterly Financial Statements. As soon as available, but no later than forty-five (45) days after the last day of each of the Borrower's 1st, 2nd, and 3rd fiscal quarters, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations for such quarter certified by a Responsible Officer and in a form acceptable to Bank (the "Quarterly Financial Statements"). The financial statements in Borrower's Form 10-Q for each such quarter shall be deemed to constitute Quarterly Financial Statements;

(b) Quarterly Compliance Certificate. Within forty-five (45) days after the last day of each of Borrower's 1st, 2nd, and 3rd fiscal quarters, except for the fourth quarter within one-hundred and twenty (120) days, and together with the Quarterly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such period, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank shall reasonably request;

(c) Annual Audited Financial Statements. As soon as available, but no later than one hundred and twenty (120) days after the last day of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from one of the so-called "Big Four" national accounting firms or an independent certified public accounting firm acceptable to Bank in its reasonable discretion. Such audited consolidated financial statements and unqualified opinion in Borrower's Form 10-K for each of its fiscal years shall be deemed to meet the requirements for annual audited financial statements;

(d) SEC Filings. Within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the Internet at Borrower's website address;

(e) Legal Action Notice. A prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could reasonably be expected to result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, Ten Million Dollars ($10,000,000.00) or more; and

(f) Other Financial Information. Budgets, sales projections, operating plans and other financial information once per year, as reasonably requested by Bank; provided that if an Event of Default has occurred, there shall be no limitation on the number of requests by Bank.

6.3 Reserved.

6.4 Taxes; Pensions. Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

In the event any payments are received by Bank from Borrower pursuant to this Agreement, such payments will be made subject to applicable withholding for any taxes, levies, fees, deductions, withholding, restrictions or conditions of any nature whatsoever. Notwithstanding the foregoing, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any such deduction or withholding from any such payment or other sum payment hereunder to Bank, the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required deduction or withholding, Bank receives a net sum equal to the sum which it would have received had no deductions or withholding been required, and Borrower shall pay the full amount deducted or withheld to the relevant Governmental Authority. Borrower will, upon request, furnish Bank with proof satisfactory to Bank indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this provision shall survive the termination of this Agreement.

6.5 Insurance. Keep its business insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with companies, and in amounts that are satisfactory to Bank. At Bank's request, Borrower shall deliver certified copies of policies and evidence of all premium payments. All policies (or their respective endorsements) shall provide that the insurer shall give Bank at least twenty (20) days notice before canceling, amending, or declining to renew its policy. If Borrower fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies Bank deems prudent. Upon the occurrence and continuance of an Event of Default, proceeds payable under any policy shall, at Bank's option, be payable to Bank on account of the Obligations, and not later than ten (10) Business Days following notice from Bank as to such Event of Default, (i) all property policies shall have a lender's loss payable endorsement showing Bank as a lender loss payee and waive subrogation against Bank, and (ii) all liability policies shall show, or have endorsements showing, Bank as an additional insured.

6.6 Reserved.

6.7 Financial Covenants. Maintain at all times, to be tested as of the last day of each fiscal quarter of Borrower, on a consolidated basis with respect to Borrower and its Subsidiaries:

(a) Quick Ratio. A ratio of Quick Assets to Current Liabilities of at least 1.75 to 1.0.

6.8 Protection of Intellectual Property Rights. (i) Protect, defend and maintain the validity and enforceability of its material Intellectual Property; (ii) promptly advise Bank in writing of material infringements of its Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent.

6.9 Litigation Cooperation. From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank relating to Borrower.

6.10 Reserved.

6.11 Reserved.

6.12 Access Books and Records. Allow Bank, or its agents, at reasonable times, on three (3) Business Day's notice (provided no notice is required if an Event of Default has occurred and is continuing), to inspect and audit and copy Borrower's Books. The foregoing inspections and audits shall be at Borrower's expense.

6.13 Reserved.

6.14 Further Assurances. Execute any further instruments and take further action as Bank reasonably requests or to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS

Borrower shall not do any of the following without Bank's prior written consent:

7.1 Dispositions. Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) at fair market value upon commercially reasonably terms; (b) of Inventory in the ordinary course of business; (c) of worn out, surplus or obsolete equipment; (d) in connection with Permitted Liens and Permitted Investments; (e) of non-exclusive licenses for the use of the property of Borrower or its Subsidiaries in the ordinary course of business.

7.2 Changes in Business, Control. (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; or (c) permit or suffer any Change in Control.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person except where (a) no Event of Default has occurred and is continuing or would exist after giving effect to the transactions, and (b) Borrower, or in the case of a transaction not including Borrower, such Subsidiary, is the surviving legal entity. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

7.4 Indebtedness. Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 Encumbrance. Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, except as is otherwise permitted in Section 7.1 hereof and the definition of "Permitted Liens" herein.

7.6 Reserved.

7.7 Distributions; Investments. (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock; provided that Borrower may repurchase its capital stock so long as an Event of Default does not exist at the time of such repurchase and would not exist after giving effect to such repurchase; or (b) directly or indirectly make any Investment other than Permitted Investments, or permit any of its Subsidiaries to do so.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for transactions that are fair and reasonable or in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.9 Subordinated Debt. (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof or adversely affect the subordination thereof to Obligations owed to Bank.

7.10 Compliance. Become an "investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a Material Adverse Change on Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

8. <u>EVENTS OF DEFAULT</u>

Any one of the following shall constitute an event of default (an "Event of Default") under this Agreement:

8.1 Payment Default. Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Revolving Line Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (a) or (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

8.2 Covenant Default.

(a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.7, 6.8, or violates any covenant in Section 7; or

(b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8(a)) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Cure periods provided under this Section 8.2(b) shall not apply, among other things, to financial covenants or any other covenants set forth in Section 8.2(a);

8.3 Reserved.

8.4 Attachment; Levy; Restraint on Business.

(a)(i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary) on deposit or otherwise maintained with Bank or any Bank Affiliate, or (ii) a notice of lien or levy is filed against Borrower's assets with an aggregate fair value of Ten Million Dollars ($10,000,000.00) or more by any government agency, and the same under subclauses (i) and (ii) hereof are not, within thirty (30) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any such thirty (30) day cure period; or

(b)(i) any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting any material part of its business;

8.5 Insolvency. (a) Borrower fails to be solvent as described under Section 5.6 hereof; (b) Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within forty-five (45) days (but no Credit Extensions shall be made while of any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

8.6 Other Agreements. There is, under any agreement to which Borrower is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of Ten Million Dollars ($10,000,000.00); or (b) any default by Borrower, the result of which could reasonably be deemed to cause a Material Adverse Change on Borrower's business;

8.7 Judgments. One or more final judgments, orders, or decrees for the payment of money in an amount, individually or in the aggregate, of at least Ten Million Dollars ($10,000,000.00) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower and the same are not, within thirty (30) days after the entry thereof or such shorter period required by law or order, discharged or execution thereof stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the discharge, stay, or bonding of such judgment, order, or decree);

8.8 Misrepresentations. Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made; or

8.9 Subordinated Debt. Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement;

9. BANK'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. While an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) demand that Borrower (i) deposit cash with Bank in an amount equal to (a) 105% for Letters of Credit denominated in U.S. Dollars and (b) 110% of the Dollar Equivalent for Letters of Credit denominated in currency other than U.S. Dollars of the aggregate face amount of all Letters of Credit remaining undrawn (plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), to secure all of the Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit;

(d) terminate any FX Forward Contracts;

(e) apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;

(f) demand and receive possession of Borrower's Books, in form reasonably satisfactory to Bank; and

(g) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code.

9.2 Reserved.

9.3 Protective Payments. If Borrower fails to obtain the insurance called for by Section 6.5 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations. Bank will make reasonable efforts to provide Borrower with ten (10) days notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.4 Application of Payments and Proceeds Upon Default. If an Event of Default has occurred and is continuing, Bank may apply any funds in its possession, whether from Borrower account balances, payments, or otherwise, to the Obligations in such order as Bank shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency.

9.5 Reserved.

9.6 No Waiver; Remedies Cumulative. Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

9.7 Demand Waiver. Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

10. NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower:	Harmonic, Inc. 4300 North First Street San Jose, California 95134 Attn: Treasurer Fax:________________ Email:________________
	Harmonic, Inc. 4300 North First Street San Jose, California 95134 Attn: General Counsel Fax:________________ Email:________________
If to Bank:	Silicon Valley Bank 2400 Hanover Street Palo Alto, CA 94304 Attn: Tom Smith Email: tsmith@svb.com

11. CHOICE OF LAW, VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court), appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including, without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery, which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

12. GENERAL PROVISIONS

12.1 Successors and Assigns. This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents.

12.2 Indemnification. Borrower agrees to indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank (each, an "Indemnified Person") harmless against: (a) all obligations, demands, claims, and liabilities (collectively, "Claims") claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank and Borrower (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person's gross negligence or willful misconduct.

12.3 Time of Essence. Time is of the essence for the performance of all Obligations in this Agreement.

12.4 Severability of Provisions. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 Correction of Loan Documents. Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties.

12.6 Amendments in Writing; Waiver; Integration. No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

12.7 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

12.8 Survival. All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been paid in full and satisfied. The obligation of Borrower in Section 12.2 to indemnify Bank shall survive until the statute of limitations with respect to such claim or cause of action shall have run.

12.9 Confidentiality. In handling any confidential information, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "Bank Entities"); (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, Bank shall use its best efforts to obtain any prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank; or (ii) disclosed to Bank by a third party if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use the confidential information for reporting purposes and the development and distribution of databases and market analyses so long as such confidential information is aggregated and anonymized prior to distribution unless otherwise expressly prohibited by Borrower. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

12.10 Attorneys' Fees, Costs and Expenses. In any action or proceeding between Borrower and Bank arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

12.11 Electronic Execution of Documents. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

12.12 Captions. The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

12.13 Construction of Agreement. The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

12.14 Relationship. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

12.15 Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

13. DEFINITIONS

13.1 Definitions. As used in the Loan Documents, the word "shall" is mandatory, the word "may" is permissive, the word "or" is not exclusive, the words "includes" and "including" are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

"**Account**" is any "account" as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to Borrower.

"**Advance**" or "Advances" means an advance (or advances) under the Revolving Line.

"**Affiliate**" is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"**Agreement**" is defined in the preamble hereof.

"**Availability Amount**" is (a) the Revolving Line minus (b) the sum of (i) the Dollar Equivalent amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve), (ii) the FX Reserve, (iii) any amounts used for Cash Management Services, and (iv) the outstanding principal balance of any Advances.

"**Bank**" is defined in the preamble hereof.

"**Bank Expenses**" are all audit fees and expenses, costs, and expenses (including reasonable attorneys' fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower.

"**Borrower**" is defined in the preamble hereof.

"**Borrower's Books**" are all Borrower's books and records including ledgers, federal and state tax returns, records regarding Borrower's assets or liabilities, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

"**Borrowing Resolutions**" are, with respect to any Person, those resolutions substantially in the form attached hereto as Exhibit A and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its Secretary on behalf of such Person certifying that (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that included in such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

"**Business Day**" is any day that is not a Saturday, Sunday or other day on which banking institutions in the State of California are authorized or required by law or other governmental action to close, except that if any determination of a "Business Day" shall relate to a LIBOR Advance, the term "Business Day" shall also mean a day on which dealings are carried on in the London interbank market, and if any determination of a "Business Day" shall relate to an FX Forward Contract, the term "Business Day" shall mean a day on which dealings are carried on in the country of settlement of the Foreign Currency.

"**Cash Equivalents**" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having at least a A-1 or P-1 rating from either Standard & Poor's Ratings Group or Moody's Investors Service, Inc.; (c) Bank's certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

"**Cash Management Services**" is defined in Section 2.1.4.

"**Change in Control**" means any event, transaction, or occurrence as a result of which (a) any "person" (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of Borrower, is or becomes a beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Borrower, representing fifty percent (50%) or more of the combined voting power of Borrower's then outstanding securities; or (b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the Board of Directors of Borrower (together with any new directors whose election by the Board of Directors of Borrower was approved by a vote of not less than two-thirds of the directors then still in office who either were directions at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the directors then in office.

"**Code**" is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank's Lien on any collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term "Code" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

"**Compliance Certificate**" is that certain certificate in the form attached hereto as Exhibit B.

"**Contingent Obligation**" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

"**Continuation Date**" means any date on which Borrower continues a LIBOR Advance into another Interest Period.

"**Conversion Date**" means any date on which Borrower converts a Prime Rate Advance to a LIBOR Advance or a LIBOR Advance to a Prime Rate Advance.

"**Credit Extension**" is any Advance, FX Forward Contract, amount utilized for Cash Management Services, or any other extension of credit by Bank for Borrower's benefit.

"**Current Assets**" are amounts that under GAAP should be included on that date as current assets on Borrower's consolidated balance sheet.

"**Current Liabilities**" are all obligations and liabilities of Borrower to Bank, plus, without duplication, the aggregate amount of Borrower's Total Liabilities that mature within one (1) year, excluding deferred revenue.

"**Default Rate**" is defined in Section 2.3(b).

"**Deposit Account**" is any "deposit account" as defined in the Code with such additions to such term as may hereafter be made.

"**Designated Deposit Account**" is Borrower's deposit account, account number 341964970, maintained with Bank.

"**Dollars**," "**dollars**" or use of the sign "**$**" means only lawful money of the United States and not any other currency, regardless of whether that currency uses the "$" sign to denote its currency or may be readily converted into lawful money of the United States.

"**Dollar Equivalent**" is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

"**Effective Date**" is defined in the preamble hereof.

"**Equipment**" is all "equipment" as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

"**ERISA**" is the Employee Retirement Income Security Act of 1974, and its regulations.

"**Event of Default**" is defined in Section 8.

"**Exchange Act**" is the Securities Exchange Act of 1934, as amended.

"**Foreign Currency**" means lawful money of a country other than the United States.

"**Funding Date**" is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

"**FX Business Day**" is any day when (a) Bank's Foreign Exchange Department is conducting its normal business and (b) the Foreign Currency being purchased or sold by Borrower is available to Bank from the entity from which Bank shall buy or sell such Foreign Currency.

"**FX Forward Contract**" is defined in Section 2.1.3.

"**FX Reserve**" is defined in Section 2.1.3.

"**GAAP**" is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

"**Governmental Approval**" is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

"**Governmental Authority**" is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

"**Indebtedness**" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

"**Indemnified Person**" is defined in Section 12.2.

"**Insolvency Proceeding**" is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"**Intellectual Property**" means all of Borrower's right, title, and interest in and to the following:

(a) its Copyrights, Trademarks and Patents;

(b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, and operating manuals;

(c) any and all source code;

(d) any and all design rights which may be available to a Borrower;

(e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and

(f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

"**Interest Expense**" means for any fiscal period, interest expense (whether cash or non-cash) determined in accordance with GAAP for the relevant period ending on such date, including, in any event, interest expense with respect to any Credit Extension and other Indebtedness of Borrower and its Subsidiaries, including, without limitation or duplication, all commissions, discounts, or related amortization and other fees and charges with respect to letters of credit and bankers' acceptance financing and the net costs associated with interest rate swap, cap, and similar arrangements, and the interest portion of any deferred payment obligation (including leases of all types).

"**Interest Payment Date**" means, with respect to any LIBOR Advance, the last day of each Interest Period applicable to such LIBOR Advance and, with respect to Prime Rate Advances, the first day of each month (or, if that day of the month does not fall on a Business Day, then on the first Business Day following such date), and each date a Prime Rate Advance is converted into a LIBOR Advance to the extent of the amount converted to a LIBOR Advance.

"**Interest Period**" means, as to any LIBOR Advance, the period commencing on the date of such LIBOR Advance, or on the conversion/continuation date on which the LIBOR Advance is converted into or continued as a LIBOR Advance, and ending on the date that is 1, 2 or 3 months thereafter, in each case as Borrower may elect in the applicable Notice of Borrowing or Notice of Conversion/Continuation; provided, however, that (a) no Interest Period with respect to any LIBOR Advance shall end later than the Revolving Line Maturity Date, (b) the last day of an Interest Period shall be determined in accordance with the practices of the LIBOR interbank market as from time to time in effect, (c) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless, in the case of a LIBOR Advance, the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day, (d) any Interest Period pertaining to a LIBOR Advance that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period, and (e) interest shall accrue from and include the first Business Day of an Interest Period but exclude the last Business Day of such Interest Period.

"**Interest Rate Determination Date**" means each date for calculating the LIBOR for purposes of determining the interest rate in respect of an Interest Period. The Interest Rate Determination Date shall be the second Business Day prior to the first day of the related Interest Period for a LIBOR Advance.

"**Inventory**" is all "inventory" as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

"**Investment**" is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

"**Letter of Credit**" means a standby letter of credit issued by Bank or another institution based upon an application, guarantee, indemnity or similar agreement on the part of Bank as set forth in Section 2.1.2.

"**Letter of Credit Application**" is defined in Section 2.1.2(b).

"**Letter of Credit Reserve**" has the meaning set forth in Section 2.1.2(e).

"**LIBOR**" means, for any Interest Rate Determination Date with respect to an Interest Period for any Advance to be made, continued as or converted into a LIBOR Advance, the rate of interest per annum determined by Bank to be the per annum rate of interest at which deposits in United States Dollars are offered to Bank in the London interbank market (rounded upward, if necessary, to the nearest 0.0001%) in which Bank customarily participates at 11:00 a.m. (local time in such interbank market) two (2) Business Days prior to the first day of such Interest Period for a period approximately equal to such Interest Period and in an amount approximately equal to the amount of such Advance.

"**LIBOR Advance**" means an Advance that bears interest based at the LIBOR Rate.

"**LIBOR Rate**" means, for each Interest Period in respect of LIBOR Advances comprising part of the same Advances, an interest rate per annum (rounded upward, if necessary, to the nearest 0.0001%) equal to LIBOR for such Interest Period divided by one (1) minus the Reserve Requirement for such Interest Period.

"**LIBOR Rate Margin**" is one and three-quarters percent (1.75%).

"**Lien**" is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

"**Loan Documents**" are, collectively, this Agreement, any note, or notes or guaranties executed by Borrower, and any other present or future agreement between Borrower any future guarantor and/or for the benefit of Bank in connection with this Agreement, all as amended, restated, or otherwise modified.

“**Material Adverse Change**” is defined in Section 3.2(c).

“**Notice of Borrowing**” means a notice given by Borrower to Bank in accordance with Section 3.2(a), substantially in the form of Exhibit C, with appropriate insertions.

“**Notice of Conversion/Continuation**” means a notice given by Borrower to Bank in accordance with Section 3.5, substantially in the form of Exhibit D, with appropriate insertions.

“**Obligations**” are Borrower’s obligations to pay when due any principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, under this Agreement or any of the Loan Documents, including, without limitation, all obligations relating to letters of credit (including reimbursement obligations for drawn and undrawn letters of credit), cash management services, and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin, and to perform Borrower’s duties under the Loan Documents.

“**Operating Documents**” are, for any Person, such Person’s formation documents, as certified with the Secretary of State of such Person’s state of formation on a date that is no earlier than 30 days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

“**Patents**” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“**Payment/Advance Form**” is that certain form attached hereto as Exhibit E.

“**Permitted Indebtedness**” is:

(a) Borrower’s Indebtedness to Bank under this Agreement and the other Loan Documents;

(b) Indebtedness existing on the Effective Date;

(c) Subordinated Debt;

(d) Indebtedness of Borrower to any Subsidiary of Borrower and of Subsidiaries to any other Subsidiary of Borrower;

(e) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;

(f) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;

(g) Indebtedness to financial institutions other than Bank in connection with obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect Borrower against fluctuation in interest rates, currency exchange rates or commodity prices so long as such Indebtedness does not exceed Ten Million Dollars ($10,000,000.00);

(h) Indebtedness secured by Permitted Liens permitted and under clauses (a) and (c) of the definition of “Permitted Liens” hereunder;

(i) Indebtedness of any Person existing at the time such Person is merged with or into Borrower or becomes a Subsidiary as permitted hereby, provided that such Indebtedness is not incurred in connection with, or in contemplation of, such Person merging with and into the Borrower or becoming a Subsidiary of the Borrower; and

(j) Indebtedness with respect to surety, appeal, indemnity, performance or other similar bonds incurred in the ordinary course of business, consistent with past practices.

(k) Other Indebtedness not otherwise permitted by Section 7.4 not exceeding Ten Million Dollars ($10,000,000.00) in the aggregate outstanding at any time; and

(l) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness described in (a) through (f) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

"**Permitted Investments**" are:

(a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date;

(b)(i) Investments consisting of (i) Cash Equivalents, and (ii) any Investments permitted by Borrower's investment policy, as amended from time to time, provided that such investment policy (and any such amendment thereto) has been approved by borrower's Board of Directors or its Audit Committee;

(c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;

(d) Investments consisting of deposit accounts in which Bank has a perfected security interest;

(e) Investments accepted in connection with Transfers permitted by Section 7.1;

(f) Investments (i) by Borrower in Subsidiaries not to exceed Twenty-Five Million Dollars ($25,000,000.00) in the aggregate in any fiscal year and (ii) by Subsidiaries in other Subsidiaries not to exceed Ten Million Dollars ($10,000,000.00) in the aggregate in any fiscal year or in Borrower;

(g) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business not to exceed One Million Dollars ($1,000,000.00) outstanding at any time, and (ii) non-cash loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by Borrower's Board of Directors or its Compensation Committee;

(h) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(i) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (i) shall not apply to Investments of Borrower in any Subsidiary;

(j) Investments in connection with the acquisition of any part of the capital stock or property of another person so long as (i) no Event of Default has occurred and is continuing or would result from such act during the term of this Agreement, and (ii) Borrower is in compliance with Section 7.3 hereof,;

(k) Joint ventures or strategic alliances in the ordinary course of Borrower's business consisting of the non-exclusive licensing of technology, the development of technology or the providing of technical support, provided that (i) any cash investments by Borrower do not exceed Fifteen Million Dollars ($15,000,000) in the aggregate in any fiscal year and (ii) Borrower remains in compliance with Section 6.7; and

(l) other Investments not otherwise permitted by Section 7.7 not exceeding Ten Million Dollars ($10,000,000.00) in the aggregate outstanding at any time.

"**Permitted Liens**" are:

(a) Liens existing on the Effective Date;

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Borrower maintains adequate reserves on its Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(f) Liens in favor of customs and revenue authorities arising as a matter of law to secure payments of customers duties in connection with the important of goods;

(g) Liens in connection with surety or appeals bonds or letters of credit securing such bonds or reimbursement obligations in connection with statutory obligations, bids, tenders, or otherwise in the ordinary course of business provided all such Liens in the aggregate could not (even if enforced) reasonably be likely cause or result in an Event of Default;

(h) Additional Liens consented to in writing by Bank which consent may be withheld in Bank's good faith business judgment;

(i) leases or subleases of real property granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), if the leases, subleases, licenses and sublicenses do not prohibit granting Bank a security interest therein;

(j) non-exclusive license of Intellectual Property granted to third parties in the ordinary course of business;

(k) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under Sections 8.4 and 8.7; and

(l) Liens in favor of other financial institutions arising in connection with Borrower's deposit and/or securities accounts held at such institutions.

(m) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (l), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

Bank shall have the right to require, as a condition to its consent under clause (h) above, that the holder of the additional Lien sign an intercreditor agreement, in favor of Bank in form and substance satisfactory to Bank in its sole discretion, and that Borrower agree that any uncured default in any obligation secured by the subordinate Lien shall also constitute an Event of Default under this Agreement.

“**Person**” is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

“**Prime Rate**”: the rate of interest per annum from time to time published in the money rates section of the Wall Street Journal or any successor publication thereto as the “prime rate” then in effect; provided that if such rate of interest, as set forth from time to time in the money rates section of the Wall Street Journal, becomes unavailable for any reason as determined by the Bank, the “Prime Rate” shall mean the rate of interest per annum announced by Bank as its prime rate in effect at its principal office in the State of California (such announced Prime Rate not being intended to be the lowest rate of interest charged by Bank in connection with extensions of credit to debtors).

“**Prime Rate Margin**” is zero percent (0%).

“**Quick Assets**” is, on any date, Borrower’s unrestricted cash and Cash Equivalents, net billed accounts receivable and short-term investments determined according to GAAP.

“**Registered Organization**” is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“**Regulatory Change**” means, with respect to Bank, any change on or after the date of this Agreement in United States federal, state, or foreign laws or regulations, including Regulation D, or the adoption or making on or after such date of any interpretations, directives, or requests applying to a class of lenders including Bank, of or under any United States federal or state, or any foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

“**Requirement of Law**” is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“**Reserve Requirement**” means, for any Interest Period, the average maximum rate at which reserves (including any marginal, supplemental, or emergency reserves) are required to be maintained during such Interest Period under Regulation D against “Eurocurrency liabilities” (as such term is used in Regulation D) by member banks of the Federal Reserve System. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by Bank by reason of any Regulatory Change against (a) any category of liabilities which includes deposits by reference to which the LIBOR Rate is to be determined as provided in the definition of LIBOR or (b) any category of extensions of credit or other assets which include Advances.

“**Responsible Officer**” is any of the Chief Executive Officer, President, Chief Financial Officer and Corporate Controller of Borrower.

“**Revolving Line**” is an Advance or Advances in an amount equal to Ten Million Dollars ($10,000,000.00) in the aggregate outstanding at any time.

“**Revolving Line Maturity Date**” is August 25, 2012.

“**SEC**” shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

“**Securities Account**” is any “securities account” as defined in the Code with such additions to such term as may hereafter be made.

“**Settlement Date**” is defined in Section 2.1.3.

"**Subordinated Debt**" is indebtedness incurred by Borrower subordinated to all of Borrower's now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank entered into between Bank and the other creditor), on terms acceptable to Bank.

"**Subsidiary**" is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

"**Total Liabilities**" is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness.

"**Trademarks**" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

"**Transfer**" is defined in Section 7.1.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

BORROWER:

HARMONIC, INC.

By:	/S/Patrick Harshman
Name:	Patrick Harshman
Title:	CEO

BANK:

SILICON VALLEY BANK

By:	/s/Nick Tsiagkas
Name:	Nick Tsiagkas
Title:	Relationship Manager

Schedule 5.4 - Litigation

On March 4, 2010, Interkey ELC Ltd, or Interkey, filed a lawsuit in Israel, alleging breach of contract against Harmonic and Scopus Video Networks Ltd. (now Harmonic Video Networks Ltd. or “HVN”), which was acquired by Harmonic in March 2009, and Harmonic. The plaintiffs are seeking damages in the amount of 6,300,000 ILS (approximately $1.7 million).

Schedule 5.9 - Tax Returns and Payments

The Company had gross unrecognized tax benefits, which include interest and penalties, of approximately $54.0 million as of July 1, 2011. If all of these unrecognized tax benefits were recognized, the entire amount would impact the provision for income taxes. We anticipate the unrecognized tax benefits to decrease by $4.4 million in the next 12 months due to statute of limitation expirations.

EXHIBIT A – CORPORATE BORROWING CERTIFICATE

BORROWER: Harmonic, Inc. **DATE:** August [ ], 2011
BANK: Silicon Valley Bank

I hereby certify as follows, as of the date set forth above:

1. I am the Secretary, Assistant Secretary or other officer of the Borrower. My title is as set forth below.

2. Borrower's exact legal name is set forth above. Borrower is a corporation existing under the laws of the state of Delaware.

3. Attached hereto are true, correct and complete copies of Borrower's Certificate of Incorporation (including amendments), as filed with the Secretary of State of the state in which Borrower is incorporated as set forth in paragraph 1 above. Such Certificate of Incorporation has not been amended, annulled, rescinded, revoked or supplemented, and remain in full force and effect as of the date hereof.

4. The following resolutions were duly and validly adopted by Borrower's Board of Directors at a duly held meeting of such directors (or pursuant to a unanimous written consent or other authorized corporate action). Such resolutions are in full force and effect as of the date hereof and have not been in any way modified, repealed, rescinded, amended or revoked, and Bank may rely on them until Bank receives written notice of revocation from Borrower.

RESOLVED, that **any one** of the following officers or employees of Borrower, whose names, titles and signatures are below, may act on behalf of Borrower:

Name	Title	Signature	Authorized to Add or Remove Signatories
______________________	______________________	______________________	☐
______________________	______________________	______________________	☐
______________________	______________________	______________________	☐
______________________	______________________	______________________	☐

RESOLVED FURTHER, that **any one** of the persons designated above with a checked box beside his or her name may, from time to time, add or remove any individuals to and from the above list of persons authorized to act on behalf of Borrower.

RESOLVED FURTHER, that such individuals may, on behalf of Borrower:

Borrow Money. Borrow money from Silicon Valley Bank ("Bank").
Execute Loan Documents. Execute any loan documents Bank requires.
Grant Security. Grant Bank a security interest in any of Borrower's assets.

Negotiate Items. Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Borrower has an interest and receive cash or otherwise use the proceeds.
Letters of Credit. Apply for letters of credit from Bank.
Foreign Exchange Contracts. Execute spot or forward foreign exchange contracts.
Further Acts. Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Borrowers right to a jury trial) they believe to be necessary to effectuate such resolutions.

RESOLVED FURTHER, that all acts authorized by the above resolutions and any prior acts relating thereto are ratified.

5. The persons listed above are Borrower's officers or employees with their titles and signatures shown next to their names.

By: ________________________
Name: ________________________
Title: ________________________

*** *If the Secretary, Assistant Secretary or other certifying officer executing above is designated by the resolutions set forth in paragraph 4 as one of the authorized signing officers, this Certificate must also be signed by a second authorized officer or director of Borrower.*

I, the   of Borrower, hereby certify as to paragraphs 1 through 5 above, as of the date set forth above.
[print title]

By: ________________________
Name: ________________________
Title: ________________________

EXHIBIT B - COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK Date:__________________
FROM: HARMONIC, INC.

The undersigned authorized officer of Harmonic, Inc. (the "Borrower") certifies that under the terms and conditions of the Loan Agreement between Borrowers and Bank (the "Loan Agreement"):

(1) Borrower is in complete compliance for the period ending with all required covenants except as noted below; (2) there are no Events of Default; and (3) all representations and warranties in the Loan Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date.

Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Loan Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Loan Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting Covenant	Required	Complies
Quarterly Financial Statements with Compliance Certificate	Quarterly within 45 days	Yes No
Annual financial statement (CPA Audited) + CC	FYE within 120 days	Yes No
10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes No
Budgets, Projections, Operating Plans	Once per year, as reasonably requested by Bank; provided that if an Event of Default has occurred, no limitation on the number of requests by Bank	Yes No

The following Intellectual Property was registered (or a registration application submitted) after the Effective Date (if no registrations, state "None")

____

____

The following financial covenant analys[is][es] and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

Harmonic, Inc.

By ______________________
Name: ______________________
Title: ______________________

BANK USE ONLY

Received by: ______________________
AUTHORIZED SIGNER
Date: ______________________

Verified: ______________________
AUTHORIZED SIGNER
Date: ______________________

Compliance Status: Yes No

Schedule 1 to Compliance Certificate

Financial Covenants of Borrowers

In the event of a conflict between this Schedule and the Loan Agreement, the terms of the Loan Agreement shall govern.

Dated: ________________

I. **Minimum Quick Ratio** (Section 6.7(a))

Required:

At all times, tested as of the last day of each Fiscal Quarter:	Minimum Quick Ratio
September 30, 2011 and each fiscal quarter thereafter	1.75:1.00

Actual:

A	Quick Assets		
	1. Unrestricted cash and Cash Equivalents	$_______	
	2. Net billed accounts receivable	$_______	
	3. short-term investments determined according to GAAP	$_______	
	4. Quick Assets (sum of 1, 2 and 3)	$_______	
B	Current Liabilities		
	1. All obligations and liabilities of Borrower to Bank	$_______	
	2. Borrower's Total Liabilities (excluding amounts on line 1) that mature within one (1) year (excluding deferred revenue)	$_______	
	3. Total Current Liabilities	$_______	
C	Quick Ratio		
	1. Quick Assets (A.4)	$_______	
	2. Current Liabilities (B.3)	$_______	
	3. Actual Liquidity Coverage Ratio (C.1 divided by C.2)	________	to 1.000

Is line C.3 equal to or greater than the applicable requirement set forth in the table above?

_________No, not in compliance _________Yes, in compliance

EXHIBIT C - FORM OF NOTICE OF BORROWING

HARMONIC, INC.

Date:

TO: **SILICON VALLEY BANK**
2400 Hanover Street
Palo Alto, CA 94304
Attention: Corporate Services Department

RE: Loan Agreement dated as of August [ ], 2011 (as amended, modified, supplemented or restated from time to time, the "***Loan Agreement***"), by and between Harmonic, Inc. (the "***Borrower***"), and Silicon Valley Bank

Ladies and Gentlemen:

The undersigned refers to the Loan Agreement, the terms defined therein and used herein as so defined, and hereby gives you notice irrevocably, pursuant to Section 3.4 of the Loan Agreement, of its request for a Loan.

1. The requested Borrowing Date, which shall be a Business Day, is .

2. The aggregate amount of the requested Loan is $.

3. The requested Loan shall consist of $ of Prime Rate Loan and $ of LIBOR Loan.

4. The duration of the Interest Period for the LIBOR Loan included in the requested Loan shall be [1, 2, or 3] months.

5. The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the proposed Advance before and after giving effect thereto, and to the application of the proceeds therefrom, as applicable:

(a) each of the representations and warranties made by Borrower in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date;

(b) no default or Event of Default shall have occurred as of or on such date or after giving effect to the extensions of credit requested to be made on such date; and

(c) the requested Loan, if an Advance, will not, when added to the aggregate outstanding amount of the FX Reserves and the aggregate undrawn amount of all outstanding Letters of Credit, exceed the Availability Amount.

HARMONIC, INC.

By: ____________________
Name: ____________________
Title: ____________________

For internal Bank use only

Eurodollar Pricing Date	Eurodollar Rate	Eurodollar Variance	Maturity Date
		%	

EXHIBIT D - FORM OF NOTICE OF CONVERSION/CONTINUATION

HARMONIC, INC.

Date:

TO: **SILICON VALLEY BANK**
2400 Hanover Street
Palo Alto, CA 94304
Attention: Nick Tsiagkas

RE: Loan Agreement dated as of August [ ], 2011 (as amended, modified, supplemented or restated from time to time, the "***Loan Agreement***"), by and between Harmonic, Inc. (the "***Borrower***"), and Silicon Valley Bank

Ladies and Gentlemen:

The undersigned refers to the Loan Agreement, the terms defined therein being used herein as therein defined, and hereby gives you notice irrevocably, pursuant to Section 3.5(b) of the Loan Agreement, of the [conversion] [continuation] of the Loans specified herein, that:

1. The date of the [conversion] [continuation] is , 20 .

2. The aggregate amount of the proposed Loans to be [converted] is $ or [continued] is $.

3. The Loans are to be [converted into] [continued as] [LIBOR] [Prime Rate] Loans.

4. The duration of the Interest Period for the LIBOR Loans included in the [conversion] [continuation] shall be months.

5. The undersigned, on behalf of Borrower, hereby certifies that the following statements are true on the date hereof, and will be true on the date of the proposed [conversion] [continuation], before and after giving effect thereto and to the application of the proceeds therefrom:

(a) each of the representations and warranties made by Borrower in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date; and

(b) no default or Event of Default shall have occurred as of or on such date or after giving effect to the [conversion] [continuation] requested to be made on such date.

HARMONIC, INC.

By: ____________________
Name: ____________________
Title: ____________________

EXHIBIT E – LOAN PAYMENT/ADVANCE REQUEST FORM

DEADLINE FOR SAME DAY PROCESSING IS NOON PACIFIC TIME

Fax To: Date: ______________

LOAN PAYMENT:

[Harmonic, Inc.]

From Account#________________________________ To Account #____________________________________
(Deposit Account #) (Loan Account #)
Principal $__________________________________ and/or Interest $___________________________

Authorized Signature:___________________________ Phone Number:________________________
Print Name/Title:_______________________________

LOAN ADVANCE:

Complete *Outgoing Wire Request* section below if all or a portion of the funds from this loan advance are for an outgoing wire.
From Account #________________________________ To Account #_________________________________
(Loan Account #) (Deposit Account #)
Amount of Advance $____________________________

All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for an advance; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:

Authorized Signature:______________________________ Phone Number:________________________________
Print Name/Title:_____________________________

OUTGOING WIRE REQUEST:
Complete only if all or a portion of funds from the loan advance above is to be wired.
Deadline for same day processing is noon, Pacific Time

Beneficiary Name:_____________________________ Amount of Wire: $___________________________
Beneficiary Bank:_____________________________ Account Number:___________________________
City and State:________________________________

Beneficiary Bank Transit (ABA) #:___________________ Beneficiary Bank Code (Swift, Sort, Chip, etc.):___________
(For International Wire Only)

Intermediary Bank:_____________________________ Transit (ABA) #:______________________________
For Further Credit to:____

Special Instruction:____

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature:______________________________ 2nd Signature (if required): ___________________________
Print Name/Title: __________________________________ Print Name/Title: __________________________________
Telephone #: :_____________________________________ Telephone #: : ___________________________________

Unless otherwise provided for an Advance bearing interest at LIBOR

Exhibit 31.1

Harmonic Inc.
Certification of Principal Executive Officer
Pursuant to Section 302 of
The Sarbanes-Oxley Act of 2002

I, Patrick J. Harshman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Harmonic Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant, and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2011

By: /s/ Patrick J. Harshman
Patrick J. Harshman
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Harmonic Inc.
Certification of Principal Financial Officer
Pursuant to Section 302 of
The Sarbanes-Oxley Act of 2002

I, Carolyn V. Aver, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Harmonic Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant, and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2011

By: /s/ Carolyn V. Aver
Carolyn V. Aver
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Harmonic Inc.
Certification of Principal Executive Officer
Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

As of the date hereof, I, Patrick J. Harshman, President and Chief Executive Officer of Harmonic Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This written statement is being furnished to the Securities and Exchange Commission as an exhibit accompanying such Report and shall not be deemed filed pursuant to the Securities Exchange Act of 1934, as amended.

Date: November 9, 2011

/s/ Patrick J. Harshman

Patrick J. Harshman
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

Harmonic Inc.
Certification of Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

As of the date hereof, I, Carolyn V. Aver, Chief Financial Officer of Harmonic Inc. (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This written statement is being furnished to the Securities and Exchange Commission as an exhibit accompanying such Report and shall not be deemed filed pursuant to the Securities Exchange Act of 1934, as amended.

Date: November 9, 2011

/s/ Carolyn V. Aver
Carolyn V. Aver
Chief Financial Officer
(Principal Financial Officer)