



First Quarter 2011 Earnings Call

April 28, 2011

Patrick Harshman—Chief Executive Officer
Carolyn Aver—Chief Financial Officer

Forward Looking Statements

During the course of this presentation, we will provide projections and other forward looking statements regarding future events or the future financial performance of Harmonic, including expectations concerning manufacturing cost synergies, cross-selling benefits, our 2011 business strategy, our Q2 2011 financial outlook and the impact of strong business momentum and strong operating performance in 2011. Such statements are only current expectations and actual events or results may differ materially. We refer you to Harmonic’s filings with the SEC, particularly our recent Report on Form 10-K. These documents identify important risk factors that could cause actual results to differ materially from our projections or other forward looking statements. We will also present financial metrics determined on a “non-GAAP” basis. These items, together with the corresponding GAAP numbers and a reconciliation to GAAP, are contained in this presentation and the related earnings press release on our website at www.harmonicinc.com.





Business Review

Patrick Harshman—Chief Executive Officer

Strong First Quarter

- ▶ **Strong revenue \$132.8M**
 - Up 19% pro-forma from Q1-10
 - Particularly robust video processing business, up 64% pro-forma from Q1-10
- ▶ **Strong bookings \$131.6M**
 - Continued momentum across markets and geographies
- ▶ **On-target non-GAAP gross margin 51% and operating margin 10%**
 - Executing strategic plan
- ▶ **EPS \$0.09 (non-GAAP)**
 - Up from \$0.06 in Q1-10



Q1 Business Highlights

- ▶ **High-definition continued to drive growth**
 - Continued new wins and upgrades in North America
 - Expanded International opportunities e.g. PTK (Kosovo)
 - Electra 8000 continued to lead the market
- ▶ **Internet and new media solutions gained momentum**
 - Largest Q1 order for tablet-driven application
 - New ProStream 4000 multi-screen transcoder product
 - Solution synergies with Production and Playout products grew
- ▶ **Contribution and Distribution products gained momentum**
 - Strongest revenue quarter since Scopus acquisition in 2009
 - Compelling new products and growing Broadcast market traction



Q1 Business Highlights

- ▶ **Expanded global customer base**
 - Top 10 customers contributed only 35% of revenue
 - International sales 55% of revenue
 - Continued momentum in emerging markets
- ▶ **Momentum with Broadcast and Media customers**
 - Q1 revenue up 38% pro-forma over Q1-10
 - Cross-selling benefits beginning
- ▶ **Cable business remains healthy**
 - Lower edge and access revenue offset by video processing growth
- ▶ **Support and professional services business expanded**
 - Q1 revenue up 28% pro-forma over Q1-10

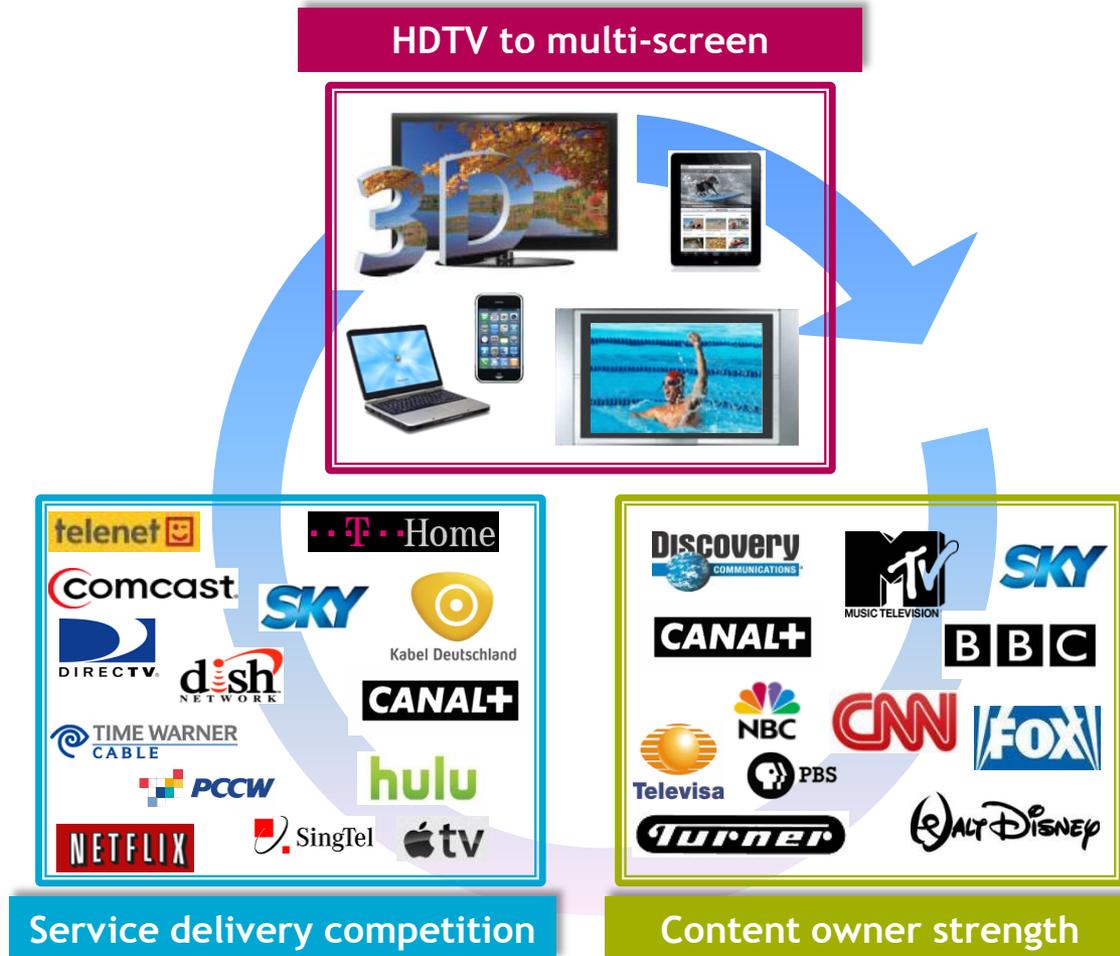


Omneon Integration Update

- ▶ Q1 revenue down modestly from Q1-10
- ▶ Significant new product introductions
 - New version of MediaGrid video-optimized storage system
 - MediaCenter video server
 - Next-generation MediaPort 7000 real-time I/O modules for video server line
- ▶ Manufacturing cost synergies on track
 - Cost benefits begin in Q2, increasing in second half
- ▶ Sales organization integration underway
- ▶ Excellent customer response at recent NAB Show



2011 Market Outlook—The Video Economy



2011 Business Strategy

- ▶ Leverage increased scale, solution breadth and competitive strength
 - Expand brand and customer relationships in developed markets
 - Capture greater market share in emerging markets
- ▶ Extend leadership position in new applications and verticals
 - Multi-screen and new media services
 - Video production
- ▶ Drive technology innovation
 - Deliver on rich pipeline of new products and solutions
- ▶ Enhance operational execution





Financial Review

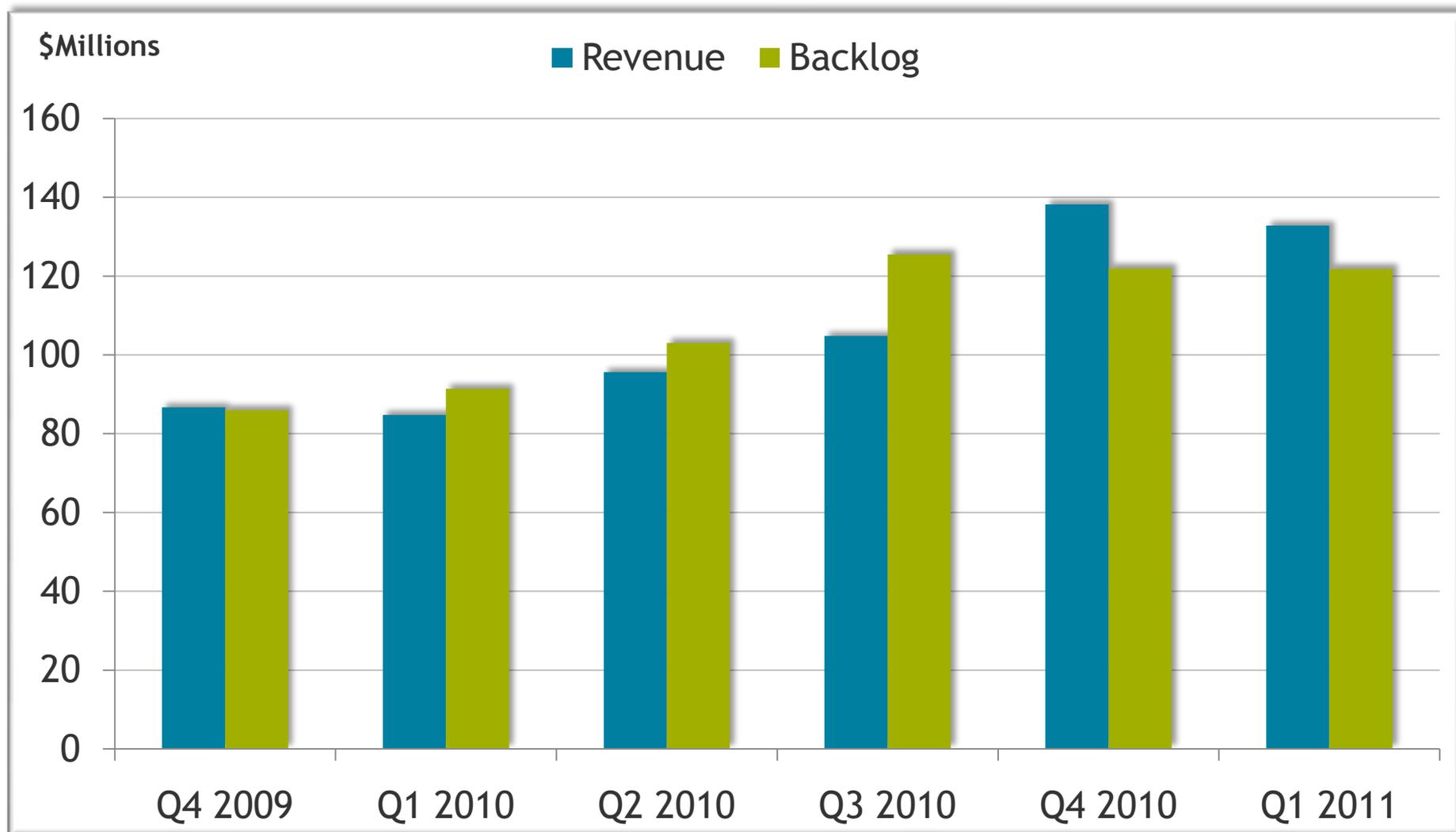
Carolyn Aver—Chief Financial Officer

Financial Highlights

Millions (except GM and EPS)	Q1 2011	Q4 2010	Q1 2010	Q1/Q4 Change	Q1 Y/Y Change
Net Revenue - GAAP	\$132.8	\$138.2	\$84.8	-4%	57%
Net Revenue - Pro Forma	\$134.9	\$139.0	\$113.0	-3%	19%
Gross Margin %- Non GAAP	51%	51%	51%	48 bp	-13 bp
Gross Margin % - GAAP	47%	44%	48%	215 bp	-154 bp
OPEX - Non GAAP	\$54.0	\$52.2	\$35.0	3%	54%
EPS - Non GAAP	\$0.09	\$0.11	\$0.06	-\$0.02	\$0.03
EPS - GAAP	\$0.00	-\$0.12	\$0.05	\$0.12	-\$0.05
Bookings	\$131.6	\$134.8	\$91.3	-2%	44%
Backlog & Deferred	\$121.8	\$121.9	\$92.7	0%	31%

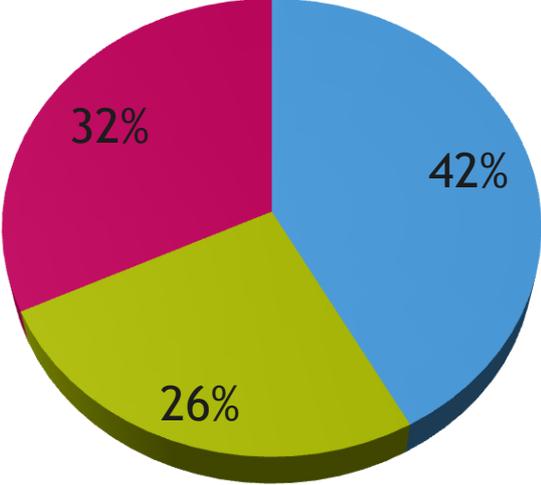
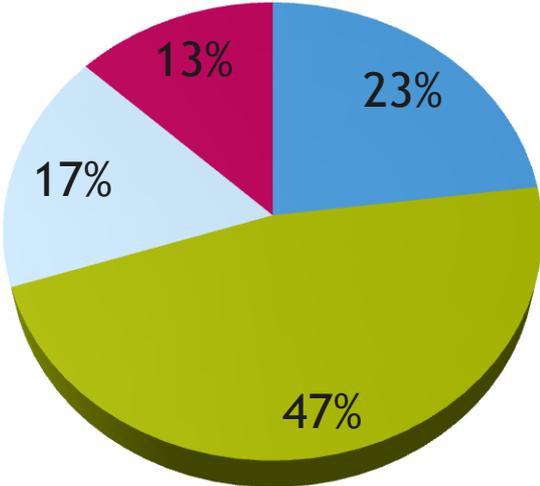
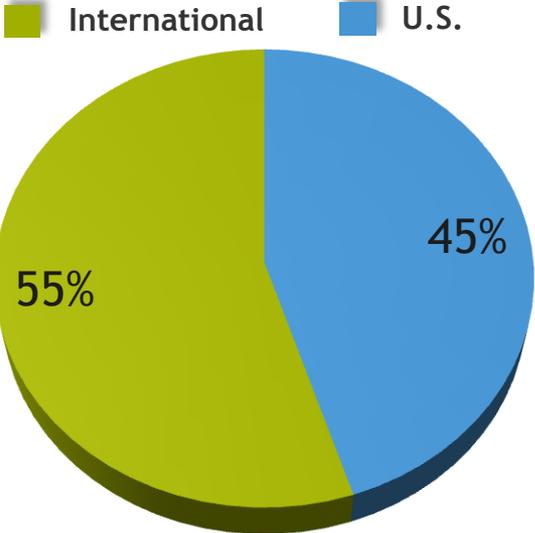


Quarterly GAAP Revenue and Backlog



Omneon contributed from completion of acquisition on Sept. 15

Q1 2011 Pro Forma Revenue Mix



Balance Sheet and Cap-Ex

\$Millions	4/1/2011	12/31/2010	4/2/2010
Cash	\$117.3	\$120.4	\$267.8
Inventory	\$58.8	\$58.1	\$39.6
Receivables	\$111.9	\$101.7	\$70.0
DSOs	77	67	75
Cap-Ex	\$3.2	\$2.4	\$1.4



Q2 2011 Financial Outlook

- ▶ Target Q2 revenues: \$137M to \$141M
 - No deferred revenue carve out
- ▶ Target Q2 non-GAAP gross margin: 50.5% to 52.5%*
- ▶ Target Q2 non-GAAP op-ex: \$54.5M to \$55.5M*
- ▶ Expected non-GAAP tax rate for 2011: 25%

* Excludes charges for stock-based compensation and the amortization of intangibles



2011 Financial Outlook

▶ Strong business momentum

- Targeting 12%+ revenue growth
- Extending video infrastructure leadership worldwide

▶ Strong operating performance

- Expecting improved gross margins
- Targeting non-GAAP operating margin 15% for year
- Expecting cost synergies to be fully realized by 2H 2011



2011 Analyst Day

- ▶ May 26, 2011 in New York City
- ▶ 8am to 12pm Eastern
- ▶ Senior management will review
 - Market Dynamics
 - Solutions and technology roadmap
 - Go-to-market strategy
- ▶ Event will be webcast
- ▶ RSVP: hlit@stct.com





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Use of Non-GAAP Financial Measures

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



GAAP to Non-GAAP Reconciliation—Q1 2011

	Three months ended					
	April 1, 2011			April 2, 2010		
	Gross Profit	Operating Expense	Net Income	Gross Profit	Operating Expense	Net Income
	(In thousands, except per share amounts)					
GAAP	\$ 61,855	\$ 61,942	\$ 516	\$ 40,806	\$ 38,345	\$ 5,319
Cost of revenue related to stock-based compensation expense	747	-	747	478	-	478
Research and development expense related to stock-based compensation expense	-	(1,836)	1,836	-	(1,109)	1,109
Selling, general and administrative expense related to stock-based compensation expense	-	(3,419)	3,419	-	(1,656)	1,656
Selling, general and administrative expense related to excess facility costs and other non-recurring expenses	-	(409)	409	-	-	-
Amortization of intangibles	5,142	(2,229)	7,371	2,082	(534)	2,616
Discrete tax items and adjustments	-	-	(4,038)	-	-	(5,345)
Non-GAAP	<u>\$ 67,744</u>	<u>\$ 54,049</u>	<u>\$ 10,260</u>	<u>\$ 43,366</u>	<u>\$ 35,046</u>	<u>\$ 5,833</u>
GAAP net income per share - basic			<u>\$ 0.00</u>			<u>\$ 0.06</u>
GAAP net income per share - diluted			<u>\$ 0.00</u>			<u>\$ 0.05</u>
Non-GAAP net income per share - basic			<u>\$ 0.09</u>			<u>\$ 0.06</u>
Non-GAAP net income per share - diluted			<u>\$ 0.09</u>			<u>\$ 0.06</u>
Shares used in per share calculation - basic			<u>113,836</u>			<u>96,684</u>
Shares used in per share calculation - diluted			<u>116,109</u>			<u>97,344</u>

Historic Pro-forma Financial Information

	Three months ended								Year ended		Three months ended	
	April 2, 2010		July 2, 2010		October 1, 2010		December 31, 2010		December 31, 2010		April 1, 2011	
Product												
Video Processing	\$ 38,890	34%	\$ 49,998	39%	\$ 51,005	39%	\$ 63,005	45%	\$ 202,898	40%	\$ 63,758	47%
Production and Playout	24,828	22%	26,589	21%	26,024	20%	27,699	20%	105,140	21%	22,408	17%
Edge and Access	35,544	32%	34,263	27%	34,712	27%	30,787	22%	135,306	26%	31,176	23%
Services and Support	13,777	12%	16,623	13%	17,760	14%	17,514	13%	65,674	13%	17,566	13%
Total	\$ 113,039	100%	\$ 127,473	100%	\$ 129,501	100%	\$ 139,005	100%	\$ 509,018	100%	\$ 134,908	100%
Geography												
United States	\$ 49,632	44%	\$ 65,456	51%	\$ 62,415	48%	\$ 64,230	46%	\$ 241,733	47%	\$ 60,608	45%
International	63,407	56%	62,017	49%	67,086	52%	74,775	54%	267,285	53%	74,300	55%
Total	\$ 113,039	100%	\$ 127,473	100%	\$ 129,501	100%	\$ 139,005	100%	\$ 509,018	100%	\$ 134,908	100%
Market												
Cable	\$ 56,441	50%	\$ 53,555	42%	\$ 63,419	49%	\$ 65,817	47%	\$ 239,232	47%	\$ 55,950	42%
Satellite and Telco	25,030	22%	36,218	28%	28,212	22%	28,455	21%	117,915	23%	35,388	26%
Broadcast and Media	31,568	28%	37,700	30%	37,870	29%	44,733	32%	151,871	30%	43,570	32%
Total	\$ 113,039	100%	\$ 127,473	100%	\$ 129,501	100%	\$ 139,005	100%	\$ 509,018	100%	\$ 134,908	100%

Data includes a full quarter proforma revenue for Omneon for the periods shown, including certain deferred revenue excluded in reported results. We have revised our market categories to combine the Telco revenue with the Satellite category. The data for prior periods has been revised to conform with this presentation.



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