



Harmonic Announces Tentative Agreement to Settle Shareholder Class Action

March 17, 2008

Litigation Settlement and Other Adjustments to Be Incorporated in

10-K Filing

SUNNYVALE, Calif.--(BUSINESS WIRE)--March 17, 2008--Harmonic Inc. (NASDAQ:HLIT), a leading provider of broadcast and on-demand video delivery solutions, today announced that it had reached a tentative agreement for the settlement of a securities class action filed against the Company and certain of its officers and directors in 2000. The Company believes that it is in its best interests to avoid the cost, management distraction and risk associated with a trial, currently scheduled for August 2008. The tentative agreement is subject to certain contingencies, including execution of a definitive agreement and court approval. The agreement will provide a full release of Harmonic and the other named defendants in connection with the allegations in the lawsuit without any admission of fault on the part of Harmonic or its officers and directors. The cost of the settlement is \$15 million, plus an estimated aggregate of \$1.4 million in related legal fees and expenses in connection with proceedings in the securities class action and derivative lawsuits. Of this aggregate cost of settlement, Harmonic will pay \$6.4 million and the Company's insurance carriers, having funded most litigation costs to date, will contribute the remaining \$10 million. As a result of this tentative agreement, the Company will record a charge of \$6.4 million in its financial statements for the year ended December 31, 2007 to be included in its Annual Report on Form 10-K to be filed with the SEC later today.

In addition, following the completion of year-end audit procedures, the Company has identified certain adjustments to its preliminary unaudited financial statements announced on January 29, 2008 for the quarter and year ended December 31, 2007. These adjustments result in the reduction of quarterly and annual revenue and net income by \$984,000 and \$253,000, respectively, and will also be included in the financial statements in the Annual Report on Form 10-K for 2007. The impact of the litigation settlement and these other adjustments will reduce the Company's reported diluted GAAP EPS for the quarter and year by \$0.08 for both periods, but non-GAAP EPS reported on January 29 will remain unchanged.

Approximately \$820,000 of the adjusted revenue and associated cost of sales of \$413,000 are expected to be recognized in the first quarter of 2008. Revised unaudited financial statements, which include the litigation settlement charge and related expenses, the effect of the year-end adjustments and a revised GAAP to non-GAAP reconciliation, are attached at the end of this release.

About Harmonic Inc.

Harmonic Inc. is a leading provider of versatile and high performance video solutions that enable service providers to efficiently deliver the next generation of broadcast and on-demand video services, including high definition, video-on-demand, network personal video recording and time-shifted TV. Cable, satellite, broadcast and telecom service providers can utilize Harmonic's digital video, broadband optical access and software solutions to offer consumers a compelling and personalized viewing experience.

Harmonic (NASDAQ:HLIT) is headquartered in Sunnyvale, California with R&D, sales and system integration centers worldwide. The Company's customers, including many of the world's largest communications providers, deliver services in virtually every country. Visit www.harmonicinc.com for more information.

Legal Notice Regarding Forward-Looking Statements

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements related to: our expectations regarding the settlement of the securities class action litigation, including our expectation that a final settlement agreement will be executed by the parties and approved by the court; our belief that the final settlement agreement will provide a full release of Harmonic and the other named defendants in connection with the allegations in the securities class action lawsuit without any admission of fault on the part of Harmonic or its officers and directors; and our expectation that the aggregate fees and expenses in connection with proceedings in the securities class action and derivative lawsuits will be approximately \$1.4 million. Our expectations and beliefs regarding these matters may not materialize, and actual results in future periods are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks include the possibility that: we will not be able to reach a definitive settlement agreement with the plaintiffs in the securities class action litigation, or that any such settlement agreement that is reached with the plaintiffs will be rejected by the court; the definitive settlement agreement will not be on the same terms that were reached in the tentative settlement; and that the aggregate fees and expenses in connection with proceedings in the securities class action and derivative lawsuits will exceed \$1.4 million. The forward-looking statements contained in this press release are also subject to other risks and uncertainties, including those more fully described in Harmonic's filings with the Securities and Exchange Commission, including our annual report filed on Form 10-K for the year ended December 31, 2006, our quarterly report on Form 10-Q for the quarterly period ended September 28, 2007, and our annual report on Form 10-K for the year ended December 31, 2007 that is expected to be filed on March 17, 2008. Harmonic does not undertake to update any forward-looking statements.

EDITOR'S NOTE - Product and company names used herein are trademarks or registered trademarks of their respective owners.

Harmonic Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

December 31, December 31,
2007 2006

	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 129,005	\$ 33,454
Short-term investments	140,255	58,917
Accounts receivable, net	69,302	64,674
Inventories	34,251	42,116
Deferred income taxes	3,506	--
Prepaid expenses and other current assets	17,489	12,807
	-----	-----
Total current assets	393,808	211,968
Property and equipment, net	14,082	14,816
Intangibles and other assets	67,889	55,178
	-----	-----
	\$ 475,779	\$ 281,962
	=====	=====
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ --	\$ 460
Accounts payable	20,500	33,863
Income taxes payable	481	7,098
Deferred revenue	37,865	29,052
Accrued liabilities	51,686	44,097
	-----	-----
Total current liabilities	110,532	114,570
Accrued excess facilities costs, noncurrent	9,907	16,434
Other non-current liabilities	20,927	5,824
	-----	-----
Total liabilities	141,366	136,828
	-----	-----
Stockholders' equity:		
Common stock	2,246,969	2,078,941
Accumulated deficit	(1,912,386)	(1,933,708)
Accumulated other comprehensive loss	(170)	(99)
	-----	-----
Total stockholders' equity	334,413	145,134
	-----	-----
	\$ 475,779	\$ 281,962
	=====	=====

Harmonic Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended	Year Ended
	December	December
	31, 2007	31, 2006
	-----	-----
	December	December
	31, 2007	31, 2006
	-----	-----

(In thousands, except per share data)

Net sales	\$ 87,390	\$ 75,338	\$ 311,204	\$ 247,684
Cost of sales	46,675	45,174	177,129	146,238
Gross profit	40,715	30,164	134,075	101,446
Operating expenses:				
Research and development	11,287	9,901	42,902	39,455
Selling, general and administrative	24,332	16,621	70,690	65,243
Write-off of acquired in-process technology	--	--	700	--
Amortization of intangibles	160	291	525	470
Total operating expenses	35,779	26,813	114,817	105,168
Income (loss) from operations	4,936	3,351	19,258	(3,722)
Interest and other income, net	2,997	1,816	6,263	5,338
Income before income taxes	7,933	5,167	25,521	1,616
Provision for income taxes	1,294	126	2,100	609
Net income	\$ 6,639	\$ 5,041	\$ 23,421	\$ 1,007
Net income per share				
Basic	\$ 0.08	\$ 0.07	\$ 0.29	\$ 0.01
Diluted	\$ 0.07	\$ 0.07	\$ 0.28	\$ 0.01
Shares used to compute net income per share:				
Basic	88,469	75,670	81,882	74,639
Diluted	90,377	76,547	83,249	75,183

Harmonic Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Year Ended	
	December 31, 2007	December 31, 2006
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 23,421	\$ 1,007

Adjustments to reconcile net income to cash provided by operating activities:		
Amortization of intangibles	5,338	2,200
Write-off of acquired in-process technology	700	--
Depreciation	6,661	7,383
Stock-based compensation	6,196	5,722
Loss on disposal and impairment of fixed assets	74	297
Deferred income taxes	--	--
Changes in assets and liabilities:		
Accounts receivable	(4,191)	(20,550)
Inventories	7,865	(3,224)
Prepaid expenses and other assets	(6,354)	(4,316)
Accounts payable	(13,129)	13,396
Deferred revenue	10,205	7,774
Income taxes payable	208	493
Accrued excess facilities costs	(6,684)	(877)
Accrued and other liabilities	5,050	(671)
	-----	-----
Net cash provided by operating activities	35,360	8,634
	-----	-----
Cash flows from investing activities:		
Purchases of investments	(178,123)	(70,398)
Proceeds from sale of investments	98,300	84,820
Acquisition of property and equipment, net	(5,868)	(5,143)
Acquisition of Rhozet, net of cash received	(1,950)	--
Purchase of Entone, Inc. note receivable	(2,500)	--
Acquisition of Entone Technologies, Inc., net of cash received	(2,465)	(26,232)
	-----	-----
Net cash used in investing activities	(92,606)	(16,953)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	153,337	4,778
Excess tax benefits from stock-based compensation	70	--
Repayments under bank line and term loan	(460)	(812)
Repayments of capital lease obligations	(72)	(82)
	-----	-----
Net cash provided by financing activities	152,875	3,884
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(78)	(71)
	-----	-----
Net increase (decrease) in cash and cash equivalents	95,551	(4,364)
Cash and cash equivalents at beginning of period	33,454	37,818
	-----	-----
Cash and cash equivalents at end of period	\$ 129,005	\$ 33,454
	=====	=====

Harmonic Inc.
Revenue Information
(Unaudited)

Three Months Ended	Year Ended
-----	-----
December 31, December 31, December 31,	December 31,

	2007		2006		2007		2006	

(In thousands)								
Product								
Video Processing	\$41,954	48%	\$30,492	41%	\$134,744	43%	\$ 96,855	39%
Edge & Access	29,379	34%	32,500	43%	125,270	40%	109,529	44%
Software, Services and Other	16,057	18%	12,346	16%	51,190	17%	41,300	17%

Total	\$87,390	100%	\$75,338	100%	\$311,204	100%	\$247,684	100%
=====								
Geography								
United States	\$49,810	57%	\$44,449	59%	\$175,257	56%	\$126,420	51%
International	37,580	43%	30,889	41%	135,947	44%	121,264	49%

Total	\$87,390	100%	\$75,338	100%	\$311,204	100%	\$247,684	100%
=====								
Market								
Cable	\$46,493	53%	\$53,236	71%	\$185,803	60%	\$155,736	63%
Satellite	21,637	25%	8,405	11%	65,343	21%	26,189	11%
Telco & Other	19,260	22%	13,697	18%	60,058	19%	65,759	26%

Total	\$87,390	100%	\$75,338	100%	\$311,204	100%	\$247,684	100%
=====								

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 non-GAAP financial measures to GAAP financial measures is included with the financial statements contained in this press release. The non-GAAP adjustments described below have historically been excluded from our non-GAAP measures. These adjustments, and the basis for excluding them, are:

-- Restructuring Activities

-- Severance Costs

The Company has incurred severance costs in cost of sales and in operating expenses in connection with the closing of its manufacturing and research and development facilities in the UK. In addition, severance costs were incurred due to a reorganization of its senior management following the appointment of a new Chief Executive Officer. The Company excludes one-time costs of this nature in evaluating its ongoing operational performance. We believe that these costs do not reflect expected future expenses nor do they provide a meaningful comparison of current versus prior operating results.

-- Excess Facilities

The Company has incurred excess facilities charges and credits in operating expenses due to adjustments related to vacating and subleasing portions of its Sunnyvale campus and to the closing of its manufacturing and research and development facilities in the UK. The Company excludes one-time costs of this nature in evaluating its ongoing operational performance. We believe that these costs do not reflect expected future expenses nor do they provide a meaningful comparison of current versus prior operating results.

-- Product Discontinuance

In connection with the restructuring of its operations in the UK, the Company recorded charges for excess inventory in connection with discontinued products. The Company excludes one-time costs of this nature in evaluating its ongoing operational performance. We believe that these costs do not reflect expected future expenses nor do they provide a meaningful comparison of current versus prior operating results.

--Litigation Settlement Costs

The Company incurred a litigation settlement charge and related expenses in 2007. We exclude one-time costs of this nature in evaluating our operating performance as it is difficult to estimate the amount or timing of these items in advance. Generally, in the case of legal settlements, these gains or losses are recorded in the period in which the matter is concluded or resolved even though the subject matter in this instance related to litigation originally initiated in 2000. We believe that these costs do not reflect future expenses nor do they provide a meaningful comparison of current versus prior operating results.

-- Non-Cash Items

-- Stock-Based Compensation Expense

The Company has incurred stock-based compensation expense in cost of sales and operating expenses as required under FAS 123R. The Company excludes stock-based compensation expense because it believes that this measure is not relevant in evaluating its core operating performance, either for internal measurement purposes or for period-to-period comparisons and benchmarking against other public companies.

-- Impairment and Amortization of Intangibles

The Company has incurred amortization of intangibles and has taken a charge for acquired in-process technology related to acquisitions the Company has made. In addition, the Company recorded an impairment of its fixed assets and intangibles due to its decision to discontinue a product line. Management excludes these items when it evaluates its core operating performance. We believe that eliminating these expenses is useful to investors when comparing historical and prospective results and comparing such results to other public companies because these expenses will vary if and when the Company makes additional acquisitions.

Harmonic Inc.
GAAP to Non-GAAP Income Reconciliation
(Unaudited)

Three Months Ended December 31, 2007			Three Months Ended December 31, 2006		
Gross Margin	Operating Expense	Net Income	Gross Margin	Operating Expense	Net Income

(In thousands)

GAAP	\$ 40,715	\$ 35,779	\$ 6,639	\$ 30,164	\$ 26,813	\$ 5,041
------	-----------	-----------	----------	-----------	-----------	----------

Cost of sales
related to

severance costs			287		287	
Cost of sales related to product discontinuance			1,134		1,134	
Cost sales related to stock based compensation expense	280	280	202		202	
Research and development expense related to stock based compensation expense		(573)	573	(334)	334	
Selling, general and administrative expense related to severance costs				(198)	198	
Selling, general and administrative expense related to excess facilities costs		(482)	482	(116)	116	
Selling, general and administrative expense related to stock based compensation expense		(868)	868	(810)	810	
Selling, general and administrative expense related to litigation settlement		(6,400)	6,400			
Impairment and amortization of fixed assets and intangibles	1,474	(160)	1,634	1,237	(491)	1,728

Non-GAAP	\$ 42,469	\$ 27,296	\$16,876	\$ 33,024	\$ 24,864	\$ 9,850
----------	-----------	-----------	----------	-----------	-----------	----------

GAAP income per share - basic	\$ 0.08	\$ 0.07
-------------------------------	---------	---------

GAAP income per share - diluted	\$ 0.07	\$ 0.07
---------------------------------	---------	---------

Non-GAAP income per share - basic	\$ 0.19	\$ 0.13
-----------------------------------	---------	---------

Non-GAAP income per share - diluted	\$ 0.19	\$ 0.13
-------------------------------------	---------	---------

Shares used in per-share calculation -

basic	88,469	75,670
	=====	=====
Shares used in per-share calculation - diluted	90,377	76,547
	=====	=====

	Year Ended December 31, 2007			Year Ended December 31, 2006		
	Gross Margin	Operating Expense	Net Income	Gross Margin	Operating Expense	Net Income
GAAP	\$134,075	\$114,817	\$23,421	\$101,446	\$105,168	\$ 1,007
Cost of sales related to severance costs	188		188	587		587
Cost of sales related to product discontinuance	772		772	1,134		1,134
Cost of sales related to stock based compensation expense	998		998	957		957
Research and development expense related to severance costs		(334)	334		(12)	12
Research and development expense related to stock based compensation expense		(2,012)	2,012		(1,638)	1,638
Selling, general and administrative expense related to severance costs		(131)	131		(848)	848
Selling, general and administrative expense related to stock based compensation expense		(3,186)	3,186		(3,124)	3,124
Selling, general and administrative expense related to excess facilities expense (recovery)		331	(331)		(2,174)	2,174
Selling, general and administrative expense related						

to litigation settlement		(6,400)	6,400			
Impairment and amortization of fixed assets and intangibles	4,740	(1,225)	5,965	1,730	(670)	2,400

Non-GAAP	\$140,773	\$101,860	\$43,076	\$105,854	\$ 96,702	\$13,881
----------	-----------	-----------	----------	-----------	-----------	----------

GAAP income per share - basic	\$ 0.29	\$ 0.01
GAAP income per share - diluted	\$ 0.28	\$ 0.01
Non-GAAP income per share - basic	\$ 0.53	\$ 0.19
Non-GAAP income per share - diluted	\$ 0.52	\$ 0.18
Shares used in per-share calculation - basic	81,882	74,639
Shares used in per-share calculation - diluted	83,249	75,183

CONTACT: Harmonic Inc.
Robin N. Dickson, 408-542-2500
Chief Financial Officer
or
StreetConnect
Michael Newman, 408-542-2760 (Investor Relations)

SOURCE: Harmonic Inc.