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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2007
[ ] 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	77-0201147
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

549 Baltic Way
Sunnyvale, CA 94089
(408) 542-2500
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.001 per share	NASDAQ Global Market

Securities registered pursuant to section 12(g) of the Act: Preferred Share Purchase Rights

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [✓] No [ ]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes [ ] No [✓]

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Yes [ ] No [✓]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" (as defined 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 [✓]

Based on the closing sale price of the Common Stock on the NASDAQ Global Market on June 29, 2007, the aggregate market value of the voting Common Stock held by non-affiliates of the Registrant was $658,215,141. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the Registrant's Common Stock, $.001 par value, was 94,089,806 on February 29, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2008 Annual Meeting of Stockholders (which will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2007) are incorporated by reference in Part III of this Annual Report on Form 10-K.

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Forward Looking Statements

Some of the statements contained in this Annual Report on Form 10-K are forward-looking statements that involve risk and uncertainties. The statements contained in this Annual Report on Form 10-K 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 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 13 in this Annual Report on Form 10-K. All forward-looking statements included in this Annual Report on Form 10-K are based on information available to us on the date thereof, and we assume no obligation to update any such forward-looking statements. The terms "Harmonic," the "Company," "we," "us," "its," and "our" as used in this Annual Report on Form 10-K refer to Harmonic Inc. and its subsidiaries and its predecessors as a combined entity, except where the context requires otherwise.

PART I

Item 1. Business

OVERVIEW

We design, manufacture and sell versatile and high performance video products and system solutions that enable service providers to efficiently deliver the next generation of broadcast and on-demand services, including high-definition television, or HDTV, video-on-demand, or VOD, network personal video recording and time-shifted TV. Historically, the majority of our sales have been derived from sales of video processing solutions and edge and access systems to cable television operators and from sales of video processing solutions to direct-to-home satellite operators. We also provide our video processing solutions to telecommunications companies, or telcos, broadcasters and Internet companies that offer video services to their customers.

INDUSTRY OVERVIEW

Demand for Broadband and Digital Video Services

The delivery to subscribers of television programming and Internet-based information and communication services is converging, driven in part by advances in technology and in part by changes in the regulatory and competitive environment. Viewers of video increasingly seek a more personalized and dynamic video experience that can be delivered to a variety of devices ranging from wide-screen HDTVs to mobile devices, including cellular phones. Today, there are a number of developing trends which impact the broadcasting and television business and that of our service provider customers, which deliver video programming. These trends include:

On-Demand Services

The introduction of digital video recorders and network-based VOD services is leading to changes in the way subscribers watch television programming. Subscribers are increasingly utilizing "time-shifting" and "ad-skipping" technology. Further advances in technology are likely to accelerate these trends, with cable, satellite and telco operators announcing initiatives, often in conjunction with network broadcasters, to increasingly personalize subscribers' video viewing experience.

High-Definition Television

The increasing popularity of HDTV and home theater equipment is putting pressure on broadcasters and pay-TV providers to offer additional HDTV content and higher quality video signals for both standard and high definition services. For example, DIRECTV offered approximately 90 national HDTV channels to its subscribers at the end of 2007, and other service providers are also rapidly introducing expanded HDTV offerings.

The Internet and Other Emerging Distribution Methods

Several companies, including Google, Yahoo! and Apple, have recently announced their entry into the video distribution business and enable their customers to download video content to PCs and mobile devices. We believe it is likely that the entry of these companies into the video distribution business will further change traditional video viewing habits and distribution methods.

Mobile Video

Several telcos in the U.S. and abroad have launched video services to cellular telephones and other mobile devices. Certain cable operators have entered into agreements with mobile phone operators that are likely to lead to further expansion of mobile video services.

These trends are expected to increase the demand from service providers for sophisticated digital video systems and optical network products, which are required to acquire video content from a variety of sources and deliver it to the subscriber.

The Market Opportunity

Personalized video services, such as VOD, and the increasing amounts of high definition content, as well as an increasing amount of data being transmitted over communications networks, will require greater bandwidth to the home in order to deliver maximum choice and flexibility to the subscriber. In addition, the delivery of live television and downloadable content to cellular telephones and other mobile devices creates bandwidth constraints and network management challenges. The demand for more bandwidth-intensive video, voice and data content has strained existing communications networks and created bottlenecks, especially in the headends and in the last mile of the communications infrastructure where homes connect to the local network. The upgrade and extension of existing networks or the construction of completely new network environments to facilitate the delivery of high-speed broadband video, voice and data services requires substantial expenditure and often the replacement of significant portions of the existing infrastructure. As a result, service providers are seeking solutions that maximize the efficiency of existing available bandwidth and cost-effectively manage and transport digital traffic within networks, while minimizing the need to construct new networks for the distribution of video, voice and data content.

Competition and Deregulation

Competition among traditional service providers in the cable and satellite markets has intensified as offerings from non-traditional providers of video, such as telcos, Internet companies and mobile operators, are beginning to attract subscribers. The economic success of existing and new operators in this increasingly competitive environment will depend, to a large extent, on their ability to provide a broader range of offerings that package video, voice and data services for subscribers. These services all need to be delivered in a highly reliable manner with easy access to a service provider’s network. This increasingly competitive environment led to higher capital spending by many of the market participants in 2007, in an effort to deploy attractive packages of services and to capture high revenue-generating subscribers. Similar competitive factors and the liberalization of regulatory regimes in foreign countries have led to the establishment abroad of new or expanded cable television networks, the launch of new direct broadcast satellite, or DBS, services and particularly, the entry of telephone companies into the business of providing video services.

Our Cable Market

To address increasing competition and demand for high-speed broadband services, cable operators have introduced digital video, voice and data services. By offering bundled packages of broadband services, cable operators are seeking to obtain a competitive advantage over telephone companies and direct broadcast satellite, or DBS, providers and to create additional revenue streams. Cable operators have been upgrading and rebuilding their networks to offer digital video, which enables them to provide more channels and better picture quality than analog video, allowing them to better compete against the substantial penetration of DBS services. These upgrades to digital video allow cable operators to roll out HDTV and interactive services, such as VOD, on their digital platforms. Capital spending on upgrades includes investment in digital video equipment that can receive, process and distribute content from a variety of sources in increasingly complex headends. For example, VOD services require video storage equipment and servers, systems to ingest, store and intelligently distribute increasing amounts of content, complemented by edge devices capable of routing, multiplexing and modulation for delivering signals to individual subscribers over a hybrid fiber-coax, or HFC, network. Additionally, the provision of HDTV channels requires deployment of high-definition encoders and significantly more available bandwidth than the equivalent number of standard definition channels. In order to provide more bandwidth for such services, operators are adopting bandwidth optimization techniques such as switched digital video, new standards such as DOCSIS 3.0, as well as making enhancements to their optical networks, including the segmentation of nodes and the extension of bandwidth from 750 MHz to 1 GHz. Although U.S. cable capital expenditures have generally declined in recent years, principally due to lower expenditures for network construction, certain cable operators increased their capital spending in 2007 and have indicated that they will spend comparable amounts in 2008.

Our Satellite Market

Satellite operators around the world have established digital television services that serve millions of subscribers. These services are capable of providing up to several hundred channels of high quality standard definition video as well as increasing numbers of high definition channels. DBS services, however, operate mostly in a one-way environment. Signals are transmitted from an uplink center to a satellite and then beamed to dishes located at subscribers' homes. This method is suited to the delivery of broadcast television, but does not lend itself easily to two-way services, such as Internet access or VOD. As cable operators expand the number of channels offered and introduce services such as VOD and HDTV, DBS providers are seeking to protect and expand their subscriber base in a number of ways. Domestic DBS operators have made local channels available in all major markets in standard definition format and are steadily adding local channels in high definition. Advances in digital video compression technology allow DBS operators to cost-effectively add these new channels and to further expand their video entertainment offerings. Certain operators have also begun to introduce VOD services which are delivered either by satellite or a terrestrial broadband connection. These new services, particularly HDTV, pose continuing bandwidth challenges and are expected to require ongoing capital expenditures for satellite capacity and other infrastructure by such operators.

Our Telco Market

Telcos are also facing increasing competition and demand for high-speed residential broadband services as well as saturation of fixed-line and basic mobile services. Consequently, many telcos around the world have added, or are planning to add, video services as a competitive response to cable and satellite and as a potential source of revenue growth. However, the telcos' legacy networks are not well equipped to offer video services. The bandwidth and distance limitations of the copper-based last mile present difficulties in providing multiple video services to widespread geographic areas. Multi-channel video, especially HDTV, delivered over DSL lines has significant bandwidth constraints, but the use of video compression technology at very low bit rates and improvements in DSL technology have allowed many operators to introduce video services using the Internet Protocol (IPTV). Many major telcos are now implementing plans to rebuild or upgrade their networks to offer bundled video, voice and data services including initial mobile video services to hand-held devices such as cellular telephones.

Other Markets

In the terrestrial broadcasting market, operators in many countries are now required by regulation to convert from analog to digital transmission in order to free up broadcast spectrum. The conversion to digital transmission often provides the opportunity to deliver new services, such as HDTV and data transmission. These broadcasters are faced with similar requirements to cable and satellite providers in that they need to convert analog signals to digital signals prior to transmission and must also effectively manage the available bandwidth to maximize their revenue streams. Similarly, operators of wireless broadcast systems require encoding for the conversion of analog signals to digital signals.

Current Industry Conditions

The telecommunications industry has seen considerable restructuring and consolidation in recent years. For example:

- In 2007, AT&T acquired Bell South.
- In 2007, Time Warner Cable was spun out of Time Warner.
- In 2006, Adelphia Communications sold its cable systems out of bankruptcy to Comcast and Time-Warner Cable, the largest U.S. multi-system operators, or MSOs.
- In 2008, Liberty Media acquired a controlling stake in DIRECTV from News Corp., following the sale of DIRECTV by Hughes to News Corp. a few years previously.
- In 2006, NTL and Telewest, the major cable operators in the UK, merged to form Virgin Media.

Regulatory issues, financial concerns and business combinations among our customers are likely to significantly affect the industry, capital spending plans, and our business for the foreseeable future.

PRODUCTS

Harmonic's products generally fall into two principal categories, video processing solutions and edge and access products. In addition, we provide network management software and have recently introduced and acquired new application software products. We also provide technical support services to our customers worldwide. Our video processing solutions provide broadband operators with the ability to acquire a variety of signals from different sources, in different protocols, and to organize, manage and distribute this content to maximize use of the available bandwidth. Our edge products enable cable operators to deliver customized broadcast or narrowcast on-demand services to their subscribers. Our access products, which consist mainly of optical transmission products, node platforms and return path products, allow cable operators to deliver video, data and voice services over their networks.

Video Processing Products

DiviCom encoders. We offer a line of high performance encoders, which provide compression of video, audio and data channels. Using sophisticated signal pre-processing, noise reduction and encoding algorithms, these encoders produce high-quality video and audio at low data transmission rates. Our encoders are available in the standard and high definition formats in both MPEG-2 and the newer MPEG-4 AVC/H264, or MPEG-4, video compression standards. Compliance with these widely adopted standards enables interoperability with products manufactured by other companies, such as set-top boxes and conditional access systems.

Statistical multiplexing solutions. We offer a variety of solutions which enable our customers to efficiently combine video streams generated by encoders into a single transport stream at the required data rate. These channel combinations, or "pools" can be in standard definition, high definition, or a combination of both. An important product for these applications is our DiviTrackIP which enable operators to combine inputs from different physical locations in a single multiplex.

Stream processing products. Our ProStream platform and other processing products offer our customers a variety of capabilities which enable them to manage and organize digital streams in a format best suited to their particular delivery requirements and subscriber offerings. Specific applications include multiplexing, scrambling, re-encoding, rate-shaping and splicing. Our products for these applications include our ProStream 1000 and 2000.

Decoders and descramblers. We provide integrated receivers-decoders to allow service providers to acquire content distributed from satellite and terrestrial broadcasters for distribution to their subscribers. These products are available in both standard and high definition formats. The Pro Stream 1000 can also be used as a bulk descrambler to enable operators to deliver up to 128 channels of video and efficiently descramble the content at small or remote headends.

Edge and Access Products

Edge products. Our Narrowcast Services Gateway family, or NSG, is a fully integrated edge gateway, which integrates routing, multiplexing and modulation into a single package for the delivery of VOD services to subscribers over cable networks. The NSG is usually supplied with Gigabit Ethernet inputs, allowing the cable operator to use bandwidth efficiently by delivering IP signals from the headend to the edge of the network for subsequent modulation onto the HFC network. The most recent NSG product, the high-density NSG 9000, may also be used in switched digital video and M-CMTS applications as well as large-scale VOD deployments.

Transmitters and optical amplifiers. Our MAXLink transmitters and optical amplifiers operate at a wavelength of 1550 nm and serve long-haul applications. The MAXLink Plus further increases the channel capacity of cable and other networks and can transmit over distances in excess of 200 kilometers. The PWRLink series provides optical transmission primarily at a headend or hub for local distribution to optical nodes and for narrowcasting, which is the transmission of programming to a select set of subscribers. Our METROLink Dense Wave Division Multiplexing, or DWDM, system allows operators to expand the capacity of a single strand of fiber and also to provide narrowcast services directly from the headend to nodes. This ability can significantly reduce the size of hubs and the associated building and equipment maintenance costs.

Optical nodes and return path equipment. Our family of PWRBlazer optical nodes supports network architectures which meet the varying demands for bandwidth delivered to a service area. By the addition of modules providing functions such as return path transmission and DWDM, our configurable nodes are easily segmented to handle increasing two-way traffic over a fiber network without major reconstruction or replacement of our customers' networks. Our return path transmitters support two-way transmission capabilities by sending video, voice and data signals from the optical node back to the headend. These transmitters are available for either analog or digital transport.

IP transmission equipment. Our FLXLink Commercial Services solution allows an operator to leverage its existing network by providing high-speed services on a wavelength of a shared fiber to individual customers or to multiple-dwelling units. This solution comprises data transport capability at various speeds and network interface units to connect to the subscriber's internal wiring.

Software Products

Management and control software. Our NMX Digital Service Manager gives service providers the ability to control and visually monitor their digital video infrastructure at an aggregate level, rather than as just discrete pieces of hardware, reducing their operational costs. Our NETWatch management system operates in broadband networks to capture measurement data and our software enables the broadband service operator to monitor and control the HFC transmission network from a master headend or remote locations. Our NMX Digital Service Manager and NETWatch software is designed to be integrated into larger network management systems through the use of simple network management protocol, or SNMP.

Application software. Our ClearCut software provides operators with high-quality digital storage of real-time broadcasts for on-demand services, and our ProStream 8000 solution allows operators to present on-screen mosaics with several channels tiled within a single video stream. Our Armada and Streamliner products enable the intelligent management of an operator's video-on-demand assets and the distribution of these assets to subscribers. Our CarbonCoder products, acquired in our recent purchase of Rhozet Corporation, are software-based transcoding solutions that facilitate the creation of multi-format video for internet, mobile and broadcast applications.

Technical and support services

We provide consulting, implementation and maintenance services to our customers worldwide. We draw upon our expertise in broadcast television, communications networking and compression technology to design, integrate and install complete solutions for our customers. We offer a broad range of services and support including program management, budget analysis, technical design and planning, parts inventory management, building and site preparation, integration and equipment installation, end-to-end system testing, comprehensive training and ongoing maintenance. Harmonic also has extensive experience in integrating our products with numerous third-party products and services.

CUSTOMERS

We sell our products to a variety of broadband communications companies. Set forth below is a representative list of our significant end user and integrator/distributor customers based on net sales during 2007.

United States	International
Cablevision Systems	Alcatel-Lucent
Charter Communications	Astra Platform Services
Comcast	Media Cruise Solutions
Cox Communications	Nokia-Siemens Networks
DIRECTV	PCCW Limited
EchoStar	Simac Broadcast
Time Warner Cable	Telindus
	Virgin Media

Historically, a majority of our sales have been to relatively few customers, and due in part to the consolidation of ownership of cable television and direct broadcast satellite systems, we expect this customer concentration to continue in the foreseeable future. Net sales to our ten largest customers in 2007, 2006 and 2005 accounted for approximately 53%, 50% and 54% of net sales, respectively. In 2007, sales to Comcast and EchoStar accounted for 16% and 12% of net sales, respectively. Sales to Comcast accounted for 12% and 18% of net sales in 2006 and 2005, respectively.

Sales to customers outside of the U.S. in 2007, 2006 and 2005 represented 44%, 49%, and 40% of net sales, respectively. We expect international sales to continue to account for a substantial portion of our net sales for the foreseeable future. International sales are subject to a number of risks, including changes in foreign government regulations and telecommunications standards, import and export license requirements, tariffs, taxes and other trade barriers, fluctuations in foreign currency exchange rates, difficulty in collecting accounts receivable, difficulty in staffing and managing foreign operations, managing distributor relations and political and economic instability. Also, additional international markets may not develop and we may not receive future orders to supply our products in international markets at rates equal to or greater than those experienced in recent periods.

SALES AND MARKETING

In the U.S. we sell our products principally through our own direct sales force which is organized geographically and by major customers and markets to support customer requirements. We sell to international customers through our own direct sales force as well as through independent distributors and integrators. Our principal sales offices outside of the U.S. are located in the United Kingdom, France, and China. International distributors are generally responsible for importing the products and providing certain installation, technical support and other services to customers in their territory. Our direct sales force and distributors are supported by a highly trained technical staff, which includes application engineers who work closely with operators to develop technical proposals and design systems to optimize system performance and economic benefits to operators. Technical support provides a customized set of services, as required, for ongoing maintenance, support-on-demand and training for our customers and distributors both in our facilities and on-site.

Our marketing organization develops strategies for product lines and market segments, and, in conjunction with our sales force, identifies the evolving technical and application needs of customers so that our product development resources can be most effectively and efficiently deployed to meet anticipated product requirements. Our marketing organization is also responsible for setting price levels, demand forecasting and general support of the sales force, particularly at major accounts. We have many programs in place to heighten industry awareness of Harmonic and our products, including participation in technical conferences, publication of articles in industry journals and exhibitions at trade shows.

MANUFACTURING AND SUPPLIERS

We use third party contract manufacturers extensively to assemble full turnkey products and a substantial majority of subassemblies and modules for our products. Our increasing reliance on subcontractors involves several risks, and we may not be able to obtain an adequate supply of components, subassemblies, modules and turnkey systems on a timely basis. In late 2003, we entered into an agreement with Plexus Services Corp. as our primary contract manufacturer, and Plexus currently provides us with a substantial portion of the products we purchase from our contract manufacturers. This agreement has automatic annual renewals unless prior notice is given and has been renewed until October 2008.

Our manufacturing operations consist primarily of final assembly and testing of fiber optic systems. These processes are performed by highly trained personnel employing technologically advanced electronic equipment and proprietary test programs. The manufacturing of our products and subassemblies is a complex process and we cannot be sure that we will not experience production problems or manufacturing delays in the future. Because we utilize our own manufacturing facilities for the final assembly and test of our fiber optic systems, and because such manufacturing capabilities are not readily available from third parties, any interruption in our manufacturing operations could materially and adversely affect our business, operating results, financial position or cash flows.

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 are dependent on a small private company for certain video encoding chips which are incorporated into several new products. Our reliance on sole or limited suppliers, particularly foreign suppliers, involves several risks, including a potential inability to obtain an adequate supply of required components, subassemblies or modules and reduced control over pricing, quality and timely delivery of components, subassemblies or modules. In particular, certain components have in the past been in short supply and are available only from a small number of suppliers, or from sole source suppliers. While we expend considerable efforts to qualify additional component sources, consolidation of suppliers in the industry and the small number of viable alternatives have limited the results of these efforts. We do not generally maintain long-term agreements with any of our suppliers, although the agreement with Plexus was for an initial term of three years and has been renewed until October 2008. Managing our supplier 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. An inability to obtain adequate deliveries or any other circumstance that would require us to seek alternative sources of supply could affect our ability to ship our products on a timely basis, which could damage relationships with current and prospective customers and harm our business. We attempt to limit this risk by maintaining safety stocks of certain components, subassemblies and modules. As a result of this investment in inventories, we have in the past and in the future may be subject to risk of excess and obsolete inventories, which could harm our business, operating results, financial position or cash flows.

INTELLECTUAL PROPERTY

We currently hold 39 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 cannot assure you 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 cannot assure you that others will not develop technologies that are similar or superior to our technology, duplicate our technology 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 investors therefore should 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, vendors and customers as needed, and generally limit access to and distribution of our proprietary information. Nevertheless, we cannot assure you 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 resources and could negatively affect our business, operating results, financial position or cash flows.

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

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. In particular, leading companies in the telecommunications industry have extensive patent portfolios. From time to time, third parties, including certain of these leading companies, have asserted and may assert exclusive patent, copyright, trademark and other intellectual property rights against us or our customers. There can be no assurance that we will be able to defend against any claims that we are infringing upon their intellectual property rights, or that the terms of any license offered by any person asserting such rights would be acceptable to us or our customers or that failure to obtain a license or the costs associated with any license would not cause our business, operating results, financial position or cash flows to be materially adversely affected. Also, you should read "Risk Factors - We or our customers may face intellectual property infringement claims from third parties" and "Legal Proceedings" for a description of the claim against us by Stanford University and Litton Systems.

BACKLOG

We schedule production of our products and solutions based upon our backlog, open contracts, informal commitments from customers and sales projections. Our backlog consists of firm purchase orders by customers for delivery within the next twelve months as well as deferred revenue which is expected to be recognized within the next twelve months. At December 31, 2007, backlog, including deferred revenue, was $98.9 million, compared to

$70.8 million at December 31, 2006. The increase in backlog at December 31, 2007 from December 31, 2006 was due principally to the increase in the number of projects, timing of the completion of contractual negotiations, timing of the completion or acceptance of projects and installations that are in process or substantially complete, and to an increase in orders received where product shipment had not been made. Anticipated orders from customers may fail to materialize and delivery schedules may be deferred or canceled for a number of reasons, including reductions in capital spending by cable, satellite and other operators or changes in specific customer requirements. In addition, due to weather-related seasonal factors and annual capital spending budget cycles at many major end users, our backlog at December 31, 2007, or any other date, is not necessarily indicative of actual sales for any succeeding period.

COMPETITION

The markets for digital video systems and fiber optics systems are extremely competitive and have been characterized by rapid technological change and declining average selling prices. The principal competitive factors in these markets include product performance, reliability, price, breadth of product offerings, network management capabilities, sales and distribution capabilities, technical support and service, and relationships with network operators. We believe that we compete favorably in each of these categories. Harmonic's competitors in digital video solutions include vertically integrated system suppliers such as Motorola, Cisco Systems, Ericsson and Thomson Multimedia, and in certain product lines, a number of smaller companies. In edge devices and fiber optic access products, competitors include corporations such as Motorola, Cisco Systems and Arris.

Recent consolidation in the industry has led to the acquisition of smaller companies such as Scientific-Atlanta, Tandberg Television and C-Cor by Cisco Systems, Ericsson and Arris, respectively. Consequently, most of our principal competitors are substantially larger and have greater financial, technical, marketing and other resources than Harmonic. Many of these large organizations are in a better position to withstand any significant reduction in capital spending by customers in these markets. They often have broader product lines and market focus, and, therefore will not be as susceptible to downturns in a particular market. In addition, many of our competitors have been in operation longer than we have and have more long-standing and established relationships with domestic and foreign customers. We may not be able to compete successfully in the future and competition may harm our business, operating results, financial position or cash flows.

If any of our competitors' products or technologies were to become the industry standard, our business could be seriously harmed. In addition, companies that have historically not had a large presence in the broadband communications equipment market have expanded their market presence through mergers and acquisitions. Further, our competitors 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, which could adversely affect our net sales and result in lower gross margins.

RESEARCH AND DEVELOPMENT

We have historically devoted a significant amount of our resources to research and development. Research and development expenses in 2007, 2006 and 2005 were $42.9 million, $39.5 million and $38.2 million, respectively.

Our research and development program is primarily focused on developing new products and systems, and adding new features to existing products and systems. Our development strategy is to identify features, products and systems for both software and hardware that are, or expected to be, needed by our customers. Our current research and development efforts are focused on the newer video compression standard, MPEG-4, and we also devote significant resources to products for MPEG over Internet Protocol, or IP, VOD and switched broadcast, stream processing and stream management software. Other research and development efforts are focused in broadband optical products that enable the transmission of video over fiber optic networks.

Our success in designing, developing, manufacturing and selling new or enhanced products will depend on a variety of factors, including the identification of market demand for new products, product selection, timely implementation of product design and development, product performance, effective manufacturing and assembly processes and sales and marketing. Because of the complexity inherent in such research and development efforts, we cannot assure you that we will successfully develop new products, or that new products developed by us will achieve market acceptance. Our failure to successfully develop and introduce new products could harm our business and operating results.

EMPLOYEES

As of December 31, 2007, we employed a total of 658 people, including 240 in sales, service and marketing, 232 in research and development, 107 in manufacturing operations and 79 in a general and administrative capacity. There were 463 employees in the U.S., and 195 employees in foreign countries who are located in the Middle East, Europe and Asia. We also employ a number of temporary employees and consultants on a contract basis. In connection with the acquisition of Rhozet in July 2007 our workforce increased by 18 with most of the employees being in research and development. None of our employees is represented by a labor union with respect to his or her employment by Harmonic. We have not experienced any work stoppages and we consider our relations with our employees to be good. Our future success will depend, in part, upon our ability to attract and retain qualified personnel. Competition for qualified personnel in the broadband communications industry and in the geographic area where our primary operations are located remains strong, and we cannot assure you that we will be successful in retaining our key employees or that we will be able to attract skilled personnel in the future.

EXECUTIVE OFFICERS OF REGISTRANT

The following table sets forth certain information regarding the executive officers of Harmonic and their ages as of March 1, 2008:

Name	Age	Position
Patrick J. Harshman	43	President & Chief Executive Officer
Robin N. Dickson	60	Chief Financial Officer
Matthew Aden	52	Vice President, Worldwide Sales and Service
Nimrod Ben-Natan	40	Vice President, Solutions and Strategy
Charles J. Bonasera	50	Vice President, Operations
Neven Haltmayer	43	Vice President, Research and Development

Patrick J. Harshman joined Harmonic in 1993 and was appointed President and Chief Executive Officer in May 2006. In December 2005, he was appointed Executive Vice President responsible for the majority of our operational functions, including the unified digital video and broadband optical networking divisions as well as global marketing. Prior to the consolidation of our product divisions, Dr. Harshman held the position of President of the Convergent Systems division and, prior to that, for more than four years, was President of the Broadband Access Networks Division. Dr. Harshman has also previously held key leadership positions in marketing, international sales, and research and development. Dr. Harshman earned a Ph.D. in Electrical Engineering from the University of California, Berkeley and completed an Executive Management Program at Stanford University.

Robin N. Dickson joined Harmonic in 1992 as Chief Financial Officer. From 1989 to March 1992, Mr. Dickson was Corporate Controller of Vitelic Corporation, a semiconductor manufacturer. From 1976 to 1989, Mr. Dickson held various positions at Raychem Corporation, a materials science company, including regional financial officer of the Asia-Pacific Division of the International Group. Mr. Dickson holds a Bachelor of Laws from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland.

Matthew Aden joined Harmonic in October 2007 as Vice President, Worldwide Sales and Service. Mr. Aden was previously Vice President of Worldwide Sales and Customer Operations at Terayon Communications, a manufacturer of broadband systems, from July 2005 to July 2007. Prior to Terayon, Mr. Aden was at Motorola/General Instrument from 1984 until July 2005 and held a variety of positions in executive sales management. Mr. Aden holds a Bachelor’s degree in Business Administration from the University of Nebraska.

Nimrod Ben-Natan joined Harmonic in 1997 and was appointed Vice President of Product Marketing, Solutions and Strategy in 2007. Mr. Ben-Natan initially joined us as a software engineer to design and develop our first-generation video transmission platform, and in 2000, transitioned to product marketing, solutions and strategy to develop the digital video cable segment. From 1993 to 1997, Mr. Ben-Natan was employed at Orckit Communications Ltd., a digital subscriber line developer. Previously, Mr Ben-Natan worked on wireless communications systems while he was with the Israeli Defense Signal Corps. Mr. Ben-Natan holds a B.A. in Computer Science from Tel Aviv University.

Charles J. Bonasera joined Harmonic in November 2006 as Vice President, Operations. From 2005 to 2006, Mr. Bonasera was Senior Director-Global Sourcing at Solectron Corporation, a global provider of electronics manufacturing services and supply chain solutions. From 1999 to 2005, Mr. Bonasera held various key positions in outsourcing strategies, commodity management, supply management and supply chain development at Sun Microsystems, Inc.

Neven Haltmayer joined Harmonic in December 2002 and was appointed Vice President, Research and Development in November 2005. Prior to November 2005, Mr. Haltmayer was Director of Engineering of Compression Systems and managed the development of Harmonic's MPEG-2 and MPEG-4 AVC/H.264 encoder and DiviCom Electra product lines. Between 2001 and 2002, Mr. Haltmayer held various key positions including Vice President of Engineering and was responsible for system integration and development of set top box middleware and interactive applications while at Canal Plus Technologies. Mr. Haltmayer holds a B.S. degree in Electrical Engineering from the University of Zagreb, Croatia.

ABOUT HARMONIC

Harmonic was initially incorporated in California in June 1988 and reincorporated into Delaware in May 1995. From our acquisition of C-Cube Microsystems' DiviCom business in 2000 until the end of 2005, Harmonic was organized as two operating divisions, Convergent Systems, or CS, for digital video systems, and Broadband Access Networks, or BAN, for fiber optic systems. Each division had its own management team directing its product development and marketing strategies and its customer service requirements. Effective January 1, 2006, an organizational restructuring combined the Company's CS division and BAN division into a single segment with financial results reported as a single segment as of the first quarter of 2006. A single sales force, organized geographically, has historically supported the divisions with appropriate product and market specialization as required, and it continues to sell the entire range of products of the Company.

On December 8, 2006, we completed the acquisition of the video networking software business of Entone Technologies, Inc. The solutions offered by the Entone video networking software business facilitate the provisioning of personalized video services, including VOD, network personal video recording (nPVR), time-shifted television and targeted advertisement insertion.

On July 31, 2007, we completed the acquisition of Rhozet Corporation. Rhozet develops and markets software-based transcoding solutions that facilitate the creation of multi-format video for internet, mobile and broadcast applications. With Rhozet's products, and sometimes in conjunction with other Harmonic products, Harmonic's existing broadcast, cable, satellite and telco customers can deliver traditional video programming over the Internet and to mobile devices, as well as expand the types of content delivered via their traditional networks to encompass web-based and user-generated content. The acquisition also opens up new customer opportunities for Harmonic with Rhozet's customer base of broadcast content creators and online video service providers and is complementary to Harmonic's VOD networking software business acquired in December 2006 from Entone Technologies.

Our principal executive offices are located at 549 Baltic Way, Sunnyvale, California 94089. Our telephone number is (408) 542-2500.

Available Information

Harmonic makes available free of charge on the Harmonic website the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after Harmonic files such material with, or furnishes it to, the Securities and Exchange Commission. The address of the Harmonic website is http://www.harmonicinc.com.

Item 1A. Risk Factors

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

A significant portion of our sales have been derived from sales to cable television, satellite and telecommunications operators, and we expect these sales to constitute a significant portion of net sales for the foreseeable future. Demand for our products will depend on the magnitude and timing of capital spending by cable television operators, satellite operators, telecommunications companies and broadcasters for constructing and upgrading their systems.

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

- access to financing;
- annual budget cycles;
- the impact of industry consolidation;
- the status of federal, local and foreign government regulation of telecommunications and television broadcasting;
- overall demand for communication services and customer acceptance of new video, voice and data services;
- evolving industry standards and network architectures;
- competitive pressures, including pricing pressures;
- discretionary customer spending patterns; and
- general economic conditions.

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

- uncertainty related to development of digital video industry standards;
- delays associated with the evaluation of new services, new standards, and system architectures by many operators;
- emphasis on generating revenue from existing customers by operators instead of 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 regulatory review thereof;
- economic and financial conditions in domestic and international markets; and
- bankruptcies and financial restructuring of major customers.

The financial difficulties of certain of our customers and changes in our customers' deployment plans adversely affected our business in recent years. An economic downturn or recession, deteriorating conditions in credit markets, tightening of credit, or other factors could also cause additional financial difficulties among our customers, and customers whose financial condition has stabilized may not purchase new equipment at levels we have seen in the past. Financial difficulties among our customers would adversely affect our operating results and financial condition. In addition, industry consolidation has, in the past and may in the future, constrained capital spending among our customers. As a result, we cannot assure you that we will maintain or increase our net sales in the future. If our product portfolio and product development plans do not position us well to capture an increased portion of the capital spending of U.S. cable operators, our revenue may decline and our operating results would be adversely affected.

Our customer base is concentrated and the loss of one or more of our key customers, or a failure to diversify our customer base, could harm our business.

Historically, a majority of our sales have been to relatively few customers, and due in part to the consolidation of ownership of cable television and direct broadcast satellite systems, we expect this customer concentration to continue in the foreseeable future. Sales to our ten largest customers in 2007, 2006 and 2005 accounted for approximately 53%, 50% and 54% of net sales, respectively. Although we are attempting to broaden our customer base by penetrating new markets, such as the telecommunications and broadcast markets, and to expand internationally, we expect to see continuing industry consolidation and customer concentration due in part to the significant capital costs of constructing broadband networks. For example, Comcast acquired AT&T Broadband in 2002, thereby creating the largest U.S. cable operator, now reaching approximately 24 million subscribers. The sale of Adelphia Communications' cable systems to Comcast and Time Warner Cable has led to further industry consolidation. NTL and Telewest, the two largest cable operators in the UK, completed their merger in 2006. In the DBS market, The News Corporation Ltd. acquired an indirect controlling interest in Hughes Electronics, the parent company of DIRECTV, in 2003. News Corporation announced its intention to sell its interest in DIRECTV to Liberty Media in December 2006 and closed the transaction in February 2008. In the telco market, AT&T completed its acquisition of Bell South.

In 2007, sales to Comcast and EchoStar accounted for 16% and 12% of net sales, respectively. Sales to Comcast accounted for 12% and 18% of net sales in 2006 and 2005, respectively. The loss of Comcast, EchoStar or any other significant customer or any reduction in orders by Comcast, EchoStar or any significant customer, or our failure to qualify our products with a significant customer could adversely affect our business, operating results and liquidity. In this regard, sales to Comcast declined in 2006 compared to 2005, both in absolute dollars and as a percentage of revenues. The loss of, or any reduction in orders from, a significant customer would harm our business if we were not able to offset any such loss or reduction with increased orders from other customers.

In addition, historically we have been dependent upon capital spending in the cable and satellite industry. We are attempting to diversify our customer base beyond cable and satellite customers, principally into the telco market. Major telcos have begun to implement plans to rebuild or upgrade their networks to offer bundled video, voice and data services. While we have recently increased our revenue from telco customers, we are relatively new to this market. In order to be successful in this market, we may need 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 are subject to delays in completion, as video processing technologies and video business models are 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 the recognition of revenue by Harmonic. As a result of these and other factors, we cannot assure you that we will be able to increase our revenues from the telco market, or that we can do so profitably, and any failure to increase revenues and profits from telco customers could adversely affect our business.

Our operating results are likely to fluctuate significantly and 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;

− changes in market demand;

− the timing and amount of orders, especially from significant customers;

− the timing of revenue recognition from solution contracts which may span several quarters;

− the timing of revenue recognition on sales arrangements, which may include multiple deliverables;

− the timing of completion of projects;

− competitive market conditions, including pricing actions by our competitors;

− seasonality, with fewer construction and upgrade projects typically occurring in winter months and otherwise being affected by inclement weather;

− our unpredictable sales cycles;

− the amount and timing of sales to telcos, which are particularly difficult to predict;

− new product introductions by our competitors or by us;

− changes in domestic and international regulatory environments;

− market acceptance of new or existing products;

− the cost and availability of components, subassemblies and modules;

− the mix of our customer base and sales channels;

− the mix of products sold and the effect it has on gross margins;

− changes in our operating expenses and extraordinary expenses;

− impairment of goodwill and intangibles;

− the outcome of litigation;

- write-downs of inventory;
- the impact of SFAS 123(R), an accounting standard which requires us to record the fair value of stock options as compensation expense;
- changes in our tax rate, including as a result of changes in our valuation allowance against our deferred tax assets and our expectation that we would experience a substantial increase in our effective tax rate in periods following a potential release of our valuation allowance;
- the impact of FIN 48, a recently adopted accounting interpretation which requires us to expense potential tax penalties and interest;
- our development of custom products and software;
- the level of international sales; and
- economic and financial conditions specific to the cable, satellite and telco industries, and general economic conditions.

The timing of deployment of our equipment can be subject to a number of other risks, including the availability of skilled engineering and technical personnel, the availability of other equipment such as compatible set top boxes, and our customers' need for local franchise and licensing approvals.

In addition, we often recognize a substantial portion of our revenues in the last month of the quarter. We establish our expenditure levels for product development and other operating expenses based on projected sales levels, and expenses are relatively fixed in the short term. Accordingly, variations in timing of sales can cause significant fluctuations in operating results. As a result of all these 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. In this regard, due to a decrease in gross profit percentage in 2005, and lower than expected sales during the first and second quarters of 2006, we failed to meet our internal expectations, as well as the expectations of securities analysts and investors, and the price of our common stock declined, in some cases significantly.

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

Future demand for our products will depend significantly on the growing market acceptance of several emerging broadband services, including digital video, VOD, HDTV, IPTV, mobile video services, very high-speed data services and voice-over-IP, or VoIP.

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

- new 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 adoption of switched digital video; and

- the introduction of new consumer devices, such as advanced set-top boxes and personal video recorders, or PVRs.

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 net sales growth will be materially and adversely affected.

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

- convergence, or the desire of certain network operators to deliver a package of video, voice and data services to consumers, also known as the "triple play" service;

- the entry of telcos into the video business;

- the use of digital video by businesses, governments and educators;

- efforts by regulators and governments in the U.S. and abroad to encourage the adoption of broadband and digital technologies; and

- the extent and nature of regulatory attitudes towards such issues as competition between operators, access by third parties to networks of other operators, local franchising requirements for telcos to offer video, and new services such as VoIP.

We need to develop and introduce new and enhanced products in a timely manner to remain competitive.

Broadband communications markets are characterized by continuing technological advancement, changes in customer requirements and evolving industry standards. To compete successfully, we must design, develop, manufacture and sell new or enhanced products that provide increasingly higher levels of performance and reliability. However, we may not be able to successfully develop or introduce these products if 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 achieve market acceptance; or

- are ahead of the market.

We are currently developing and marketing products based on multiple video compression standards. Encoding products based on the MPEG-2 compression standards have represented a significant portion of our sales since our acquisition of DiviCom in 2000. New standards, such as MPEG-4 AVC/H.264 have been adopted which provide significantly greater compression efficiency, thereby making more bandwidth available to operators. The availability of more bandwidth is particularly important to those DBS and telco operators seeking to launch, or expand, HDTV services. We have developed and launched products, including HD encoders, based on these new standards in order to remain competitive and are devoting considerable resources to this effort. There can be no assurance that these efforts will be successful in the near future, or at all, or that competitors will not take significant market share in HD encoding. At the same time, we need to devote development resources to the existing MPEG-2 product line which our cable customers continue to require.

Also, to successfully develop and market certain of our planned products for digital applications, we may be required to enter into technology development or licensing agreements with third parties. We cannot assure you that we will be able to enter into any necessary technology development or licensing agreements on terms acceptable to us, or at all. The failure to enter into technology development or licensing agreements when necessary could limit our ability to develop and market new products and, accordingly, could materially and adversely affect our business and operating results.

Broadband communications markets are characterized by rapid technological change.

Broadband communications markets are relatively immature, 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 cable television operators, telcos or other suppliers of broadband wireless and satellite services will decide to adopt alternative architectures or technologies that are incompatible with our current or future products. Also, decisions by customers to adopt new technologies or products are often delayed by extensive evaluation and qualification processes and can result in delays in sales of current 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 will suffer.

The markets in which we operate are intensely competitive.

The market for digital video systems is extremely competitive and has been characterized by rapid technological change and declining average selling prices. Pressure on average selling prices is particularly severe during economic downturns as equipment suppliers compete aggressively for customers' reduced capital spending. Our competitors for fiber optic products include corporations such as Motorola, Cisco Systems and C-COR, which was recently acquired by Arris. In our video processing and edge and access products, we compete broadly with products from vertically integrated system suppliers including Motorola, Cisco Systems, Thomson Multimedia and Tandberg Television, which was acquired by Ericsson in 2007, and, in certain product lines, with a number of smaller companies.

Many of our competitors are substantially larger and have greater financial, technical, marketing and other resources than us. Many of these large organizations are in a better position to withstand any significant reduction in capital spending by customers in these 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. Further, some of our competitors have greater financial resources than we do, and they have offered and in the future may offer their products at lower prices than we do, which has in the past and may in the future cause us to lose sales or to reduce our prices in response to competition. 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. We may not be able to compete successfully in the future, which would harm our business.

If any of our competitors' products or technologies were to become the industry standard, our business could be seriously harmed. For example, new standards for video compression are being introduced and products based on these standards are being developed by us and some of our competitors. If our competitors are successful in bringing these products to market earlier, or if these products are more technologically capable than ours, then our sales could be materially and adversely affected. In addition, companies that have historically not had a large presence in the broadband communications equipment market have begun recently to expand their market share through mergers and acquisitions. The continued consolidation of our competitors could have a significant negative impact on us. Further, our competitors, particularly competitors of our digital and video broadcasting systems business, 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 gross margins.

If sales forecasted for a particular period are not realized in that period due to the unpredictable sales cycles of our products, our operating results for that period will be harmed.

The sales cycles of many of our products, particularly our newer products and products sold internationally, are typically unpredictable and usually involve:

- a significant technical evaluation;
- a commitment of capital and other resources by cable, satellite, and other network operators;
- time required to engineer the deployment of new technologies or new broadband services;
- testing and acceptance of new technologies that affect key operations; and
- test marketing of new services with subscribers.

For these and other reasons, our sales cycles generally last three to nine months, but can last up to 12 months. If orders forecasted for a specific customer for a particular quarter do not occur in that quarter, our operating results for that quarter could be substantially lower than anticipated. In this regard, our sales cycles with our current and potential satellite and telco customers are particularly unpredictable. Orders may include multiple elements, the timing of delivery of which may impact the timing of revenue recognition. Additionally, our sales arrangements may include testing and acceptance of new technologies and the timing of completion of acceptance testing is difficult to predict and may impact the timing of revenue recognition. Quarterly and annual results may fluctuate significantly due to revenue recognition policies and the timing of the receipt of orders. For example, delays in the completion of certain projects underway with our international telco customers in the second quarter of 2006 resulted in lower revenue.

In addition, a significant portion of our revenue is derived from solution sales that principally consist of and include the system design, manufacture, test, installation and integration of equipment to the specifications of our customers, including equipment acquired from third parties to be integrated with our products. Revenue forecasts for solution contracts are based on the estimated timing of the system design, installation and integration of projects. Because solution contracts generally span several quarters and revenue recognition is based on progress under the contract, the timing of revenue is difficult to predict and could result in lower than expected revenue in any particular quarter.

We must be able to manage expenses and inventory risks associated with meeting the demand of our customers.

If actual orders are materially lower than the indications we receive from our customers, our ability to manage inventory and expenses may be affected. If we enter into purchase commitments to acquire materials, or expend resources to manufacture products, and such products are not purchased by our customers, our business and operating results could suffer. In this regard, our gross margins and operating results have been in the past adversely affected by significant charges for excess and obsolete inventories.

In addition, we must carefully manage the introduction of next generation products in order to balance potential inventory risks associated with excess quantities of older product lines and forecasts of customer demand for new products. For example, in 2007 we wrote down approximately $7.6 million of net obsolete and excess inventory, with a significant portion of the write-down being due to product transitions. We also wrote down $1.1 million in 2006 as a result of the end of life of a product line. There can be no assurance that we will be able to manage these product transitions in the future without incurring write-downs for excess inventory or having inadequate supplies of new products to meet customer expectations.

We may be subject to risks associated with acquisitions.

As part of our business strategy, from time to time, we have acquired, and continue to consider acquiring, businesses, technologies, assets and product lines that we believe complement or expand our existing business. For example, on December 8, 2006, we acquired the video networking software business of Entone Technologies, Inc. and, on July 31, 2007, we completed the acquisition of Rhozet, and we expect to make additional acquisitions in the future.

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

− difficulties in the assimilation of acquired operations, technologies and/or products;

− unanticipated costs associated with the acquisition transaction;

− the diversion of management's attention from other business;

− 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 existing business relationships with suppliers and customers;

− risks associated with entering markets in which we 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;

− 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; and

− delays in realizing or failure to realize the benefits of an acquisition.

For example, we closed all operations and product lines related to Broadcast Technology Limited, which we acquired in 2005 and we have recorded charges associated with that closure.

Competition within our industry for acquisitions of businesses, technologies, assets and product lines has been, and may in the future 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 is acquired by another company. Furthermore, in the event that we are able to identify and consummate any future acquisitions, we could:

− issue equity securities which would dilute current stockholders' percentage ownership;

− incur substantial debt;

− assume contingent liabilities; or

− expend significant cash.

These financing activities or expenditures could harm our business, operating results and financial condition or the price of our common stock. Moreover, even if we do obtain benefits from acquisitions in the form of increased sales and earnings, there may be a delay between the time when the expenses associated with an acquisition are incurred and the time when we recognize such benefits.

If we are unable to successfully address any of these risks, our business, financial condition or operating results could be harmed.

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

We maintain a facility in Caesarea in the State of Israel with a total of 76 employees as of December 31, 2007, or approximately 12% of our workforce. The employees at this facility consist principally of research and development personnel. In addition, we have pilot production capabilities at this facility consisting of procurement of subassemblies and modules from Israeli subcontractors and final assembly and test operations. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel. Any recurrence of the recent conflict in Israel and Lebanon could have a direct effect on our business or that of our Israeli subcontractors, in the form of physical damage or injury, reluctance to travel within or to Israel by our Israeli and foreign employees, or the loss of 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 recently. In the event that more employees are called to active duty, certain of our research and development activities may be adversely affected and significantly delayed. In addition, the interruption or curtailment of trade between Israel and its trading partners could significantly harm our business. Terrorist attacks and hostilities within Israel, the hostilities between Israel and Hezbollah, and the conflict between Hamas and Fatah have also heightened these risks. We cannot assure you that current or future tensions in the Middle East will not adversely affect our business and results of operations.

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

Sales to customers outside of the U.S. in 2007, 2006 and 2005 represented 44%, 49% and 40% of net sales, respectively, and we expect that international sales will continue to represent a meaningful portion of our net sales for the foreseeable future. Furthermore, a substantial portion of our contract manufacturing occurs overseas. Our international operations, the international operations of our contract manufacturers and our efforts to increase sales in international markets are subject to a number of risks, including:

− changes in foreign government regulations and telecommunications standards;

− import and export license requirements, tariffs, taxes and other trade barriers;

− fluctuations in currency exchange rates;

− difficulty in collecting accounts receivable;

− the burden of complying with a wide variety of foreign laws, treaties and technical standards;

− difficulty in staffing and managing foreign operations;

− political and economic instability, including risks related to terrorist activity; and

− changes in economic policies by foreign governments.

In recent years, certain of our international customers accumulated significant levels of debt and undertook 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 have seen in the past.

While our international sales 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 sales or profitability in that country. A significant portion of our European business is denominated in Euros, which may subject 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 sales cycles could cause us to fail to meet or exceed the expectations of security analysts and investors for any given period. In addition, foreign markets may not further develop in the future.

Another significant legal risk resulting from our international operations is compliance with the U.S. Foreign Corrupt Practices Act, or FCPA. In many foreign countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other U.S. laws and regulations. Although we have implemented policies and procedures designed to ensure compliance with the FCPA and similar laws, there can be no assurance that all of our employees, and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business.

Any or all of these factors could adversely impact our business and results of operations.

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

Changes in telecommunications legislation and regulations in the U.S. and other countries could affect the sales of 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. Local franchising and licensing requirements may slow the entry of telcos into the video business. Increased regulation of our customers' pricing or service offerings could limit their investments and consequently the sales of our products. Changes in regulations could have a material adverse effect on our business, operating results, and financial condition.

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

Adverse economic conditions in markets in which we operate may harm our business. If economic growth in the United States and in other countries slows, many customers may delay or reduce their technology purchases. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. If global economic and market conditions, or economic conditions in the United States or other key markets deteriorate, we may experience a material and adverse impact on our business, results of operations and financial condition.

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

As of December 31, 2007, we held approximately $34.2 million of auction rate securities, or ARSs, which were invested in municipal government obligations and preferred securities in closed-end mutual funds. The recent negative conditions in the credit markets have prevented us and other investors from liquidating holdings of ARSs because the amount of securities submitted for sale has exceeded the amount of purchase orders for such securities. For example, through February 29, 2008, auctions for approximately $31.2 million of ARSs held by us were not successful, resulting in our continuing to hold these securities and issuers paying interest at the required contractual rate. Based on current market conditions, it is likely that future auctions related to these securities will be unsuccessful in the near term, which will result in our continuing to hold these securities beyond their next scheduled auction reset dates and limiting the short-term liquidity of these investments. In the event we need or desire to access these funds, we may not be able to do so until a future auction on these investments is successful or a buyer is found outside the auction process. If a buyer is found but is unwilling to purchase the investments at par, 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. Our inability to sell ARSs at par, or rating downgrades of issuers of these securities, could adversely affect our results of operations or financial condition.

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 senior management. For example, in May 2006 we announced that our then Chairman, President and Chief Executive Officer, Anthony J. Ley, had retired from his position as President and Chief Executive Officer effective immediately, and that he was being succeeded by our then Executive Vice President, Patrick J. Harshman. In addition, in November 2006, we announced that our Senior Vice President of Operations and Quality, Israel Levi, retired from his position and was succeeded by Charles Bonasera as Vice President of Operations. Further, in October 2007, we announced the appointment of Matthew Aden as our new Vice President of Worldwide Sales and Service. We cannot assure you that changes of management personnel would not cause disruption to our operations or customer relationships, or a decline in our financial results.

In addition, we are dependent on our ability to retain and motivate high caliber personnel, in addition to attracting new personnel. Competition for qualified management, technical and other personnel can be intense and we may not be successful in attracting and retaining such personnel. Competitors and others have in the past and may in the future 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 qualified personnel in the future or delays in hiring required personnel, particularly senior management and engineers and other technical personnel, could negatively affect our business.

Accounting standards and stock exchange regulations related to equity compensation could adversely affect our earnings, our ability to raise capital and our ability to attract and retain key personnel.

Since our inception, we have used stock options as a fundamental component of our employee compensation packages. We believe that our stock option plans are an essential tool to link the long-term interests of stockholders and employees, especially executive management, and serve to motivate management to make decisions that will, in the long run, give the best returns to stockholders. The Financial Accounting Standards Board (FASB) issued SFAS 123(R) that requires us to record a charge to earnings for employee stock option grants and employee stock purchase plan rights for all periods from January 1, 2006. This standard has negatively impacted and will continue to negatively impact our earnings and may affect our ability to raise capital on acceptable terms. For 2007, stock-based compensation expense recognized under SFAS 123(R) was $6.2 million, which consisted of stock-based compensation expense related to employee and consultant equity awards and employee stock purchases.

In addition, regulations implemented by the NASDAQ Stock Market requiring stockholder approval for all stock option plans could make it more difficult for us to grant options to employees in the future. To the extent that new accounting standards make it more difficult or expensive to grant options to employees, we may incur increased compensation costs, change our equity compensation strategy or find it difficult to attract, retain and motivate employees, each of which could materially and adversely affect our business.

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

We are spending an increased amount of management time and external resources to comply with changing 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 the Company's independent registered public accounting firm in connection with the filing of the annual 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 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, 2007, our internal control over financial reporting was effective, we cannot predict the outcome of our testing 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 opinion as of future year-ends, investors may lose confidence in our financial statements, and the price of our stock may suffer.

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

We have generated substantial operating losses since we began operations in June 1988. 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. As of December 31, 2007 we had an accumulated deficit of $1.9 billion. These losses, among other things, have had and may have an adverse effect on our stockholders' equity and working capital.

We believe that our existing liquidity sources, including the net proceeds of our recent public offering of common stock, 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 unanticipated strategic opportunities, to satisfy our other liabilities, or to strengthen our financial position. Our ability to raise funds may be adversely affected by a number of factors relating to us, as well as factors beyond our control, including conditions in capital markets and the cable, satellite and telco industries. There can be no assurance that such financing will be available on terms acceptable to us, if at all.

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 a transaction, and 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 opportunities, to develop new products or to otherwise respond to competitive pressures.

We may raise additional financing through public or private equity offerings, debt financings or additional corporate collaboration and licensing arrangements. To the extent we raise additional capital by issuing equity securities, 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. For example, debt financing arrangements may require us to pledge assets or enter into covenants that could restrict our operations or our ability to incur further indebtedness. If adequate funds are not available, we will not be able to continue developing our products.

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. For example, we had insufficient quantities of certain products to meet customer demand late in the second quarter of 2006 and, as a result, our revenues were lower than internal and external expectations. 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. Also, in previous years, in response to lower sales and the prolonged economic recession, we significantly reduced our headcount and other expenses. As a result, 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 net sales would be adversely affected and we may lose business.

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.

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 new products. Our reliance on sole or limited suppliers, particularly foreign suppliers, and our increased reliance on subcontractors involves several risks, including a potential inability to obtain an adequate supply of required components, subassemblies or modules and reduced control over pricing, quality and timely delivery of components, subassemblies or modules. 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. While we expend resources to qualify additional component sources, consolidation of suppliers in the industry and the small number of viable alternatives have limited the results of these efforts. We do not generally maintain long-term agreements with any of our suppliers. 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. Furthermore, from time to time we assess our relationship with our contract manufacturers. In 2003, we entered into a three-year agreement with Plexus Services Corp. as our primary contract manufacturer, and Plexus currently provides us with a substantial portion of the products that we purchase from our contract manufacturers. This agreement has automatic annual renewals unless prior notice is given, and has been renewed until October 2008.

Difficulties in managing relationships with current contract manufacturers, particularly Plexus, could impede our ability to meet our customers' requirements and adversely affect our operating results. An inability to obtain adequate 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. We attempt to limit this risk by maintaining safety stocks of certain components, subassemblies and modules. As a result of this investment in inventories, we have in the past and in the future may be subject to risk of excess and obsolete inventories, which could harm our business, operating results, financial position or cash flows. In this regard, our gross margins and operating results in the past were adversely affected by significant excess and obsolete inventory charges.

Cessation of the development and production of video encoding chips by C-Cube's spun-off semiconductor business may adversely impact us.

Our DiviCom business, which we acquired in 2000, and the C-Cube semiconductor business (acquired by LSI Logic in June 2001) collaborated on the production and development of two video encoding microelectronic chips prior to our acquisition of the DiviCom business. In connection with the acquisition, we have entered into a contractual relationship with the spun-off semiconductor business of C-Cube, under which we have access to certain of the spun-off semiconductor business technologies and products on which the DiviCom business depends for certain product and service offerings. The current term of this agreement is through October 2008, with automatic annual renewals unless terminated by either party in accordance with the agreement provisions. On July 27, 2007, LSI announced that it had completed the sale of its consumer products business (which includes the design and manufacture of encoding chips) to Magnum Semiconductor, and the agreement providing us with access to certain of the spun-off semiconductor business technologies and products was assigned to Magnum Semiconductor. If the spun-off semiconductor business is not able to or does not sustain its development and production efforts in this area, our business, financial condition, results of operations and cash flow could be harmed.

We need to effectively manage our operations and the cyclical nature of our business.

The cyclical nature of our business has placed, and is expected to continue to place, a significant strain on our personnel, management and other resources. We reduced our work force by approximately 44% between December 31, 2000 and December 31, 2003 due to reduced industry spending and demand for our products. If demand for products increases significantly, we may need to increase our headcount, as we did during 2004, adding 33 employees. In the first quarter of 2005, we added 42 employees in connection with our acquisition of BTL, and in connection with the consolidation of our two operating divisions in December 2005, we reduced our workforce by approximately 40 employees. Following the closure of our BTL operations in the first quarter of 2007, we reduced our headcount by 29 employees in the UK. Our purchase of the video networking software business of Entone in December 2006 resulted in the addition of 43 employees, most of whom are based in Hong Kong, and we added approximately 18 employees on July 31, 2007, in connection with the completion of our acquisition of Rhozet. Our ability to manage our business effectively in the future, including any future growth, 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.

We are subject to various environmental laws and regulations that could impose substantial costs upon us and may adversely affect our business, operating results and financial condition.

Some of our operations use substances regulated under various federal, state, local and international laws governing the environment, 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 under environmental 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, effective August 13, 2005, 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, effective July 1, 2006, which bans the use of certain hazardous materials including lead, mercury, cadmium, hexavalent chromium, and polybrominated biphenyls (PBBs), and polybrominated diphenyl ethers (PBDEs) that exceed certain specified levels. For some products, substituting particular components containing regulated hazardous substances is more difficult or costly and redesign efforts could result in production delays. Selected electronic products that we maintain in inventory may be rendered obsolete if not in compliance with the new environmental laws and we may have unfulfilled sales orders, which could negatively impact our ability to generate revenue from those products. Legislation similar to RoHS and WEEE has been or may be enacted in other jurisdictions, including in the U.S., 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 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 or decreased revenue, and could require that we redesign or change how we manufacture our products, any of which could have a material adverse effect on our business.

We are liable for C-Cube's pre-merger liabilities, including liabilities resulting from the spin-off of its semiconductor business.

Under the terms of the merger agreement with C-Cube, we are generally liable for C-Cube's pre-merger liabilities. As of December 31, 2007, approximately $6.7 million of pre-merger liabilities remained outstanding and are included in accrued liabilities. We are working with LSI Logic, which acquired C-Cube's spun-off semiconductor business in June 2001 and assumed its obligations, to develop an approach to settle these obligations, a process which has been underway since the merger in 2000. These liabilities represent estimates of C-Cube's pre-merger obligations to various authorities in nine countries. We paid $1.1 million to satisfy a portion of this liability in January 2008, but are unable to predict when the remaining obligations will be paid. The full amount of the estimated obligations has been classified as a current liability. To the extent that these obligations are finally settled for less than the amounts provided, we are required, under the terms of the merger agreement, to refund the difference to LSI Logic. Conversely, if the settlements are more than the remaining $5.6 million pre-merger liability, LSI Logic is obligated to reimburse us.

The merger agreement stipulates that we will be indemnified by the spun-off semiconductor business if the cash reserves are not sufficient to satisfy all of C-Cube's liabilities for periods prior to the merger. If for any reason, the spun-off semiconductor business does not have sufficient cash to pay such taxes, or if there are additional taxes due with respect to the non-semiconductor business and we cannot be indemnified by LSI Logic, we generally will remain liable, and such liability could have a material adverse effect on our financial condition, results of operations or cash flows.

If our tax positions are determined to have been incorrect, or if we are required to release our income tax valuation allowances, our results of operations may be adversely affected.

Our provision for income taxes is subject to volatility and can be adversely affected by a variety of factors, including but not limited to changes in tax laws, regulations and accounting principles (including accounting for uncertain tax positions), or interpretations of those changes. Significant judgment is required to make determinations regarding income tax provisions as set forth in Financial Accounting Standards Board Interpretation No. 48., "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109", or FIN 48. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. In addition, FIN 48 applies to all income tax positions, including the potential recovery of previously paid taxes. If any tax positions taken by us are settled unfavorably, this could adversely impact our provision for income taxes or goodwill, which could have a material and adverse impact on our financial condition, results of operations or cash flows.

In addition, our income tax policy is to record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our accompanying combined balance sheets, as well as net operating losses and tax credit carryforwards. We follow the guidelines set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," or SFAS 109, regarding the recoverability of any deferred tax assets recorded on the balance sheet and to provide any necessary allowances as required. As such, determining necessary allowances requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities. As of December 31, 2007, we had a $112.3 million valuation allowance recorded as an offset against all of our U.S. net deferred tax assets and certain foreign net deferred tax assets. In accordance with SFAS 109, we have evaluated the need for a valuation allowance based on historical evidence, trends in profitability and expectations of future taxable income. We will continue to monitor available positive and negative evidence in future periods to determine if any or all of the valuation allowance should be released. If we were to release the entire $112.3 million valuation allowance it would result in a credit to the tax expense of $105.6 million, a credit to goodwill of $5.2 million and a credit to additional paid in capital within stockholders' equity of $1.5 million. In periods following the release of our valuation allowance we expect to experience a substantial increase in our effective tax rate which would adversely affect our results of operations.

We rely on value-added resellers and systems integrators for a substantial portion of our sales, 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 substantial portion of our sales through net sales to value-added resellers, or VARs, and systems integrators. We expect that these sales will continue to generate a substantial percentage of our net sales in the future. Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of VARs and systems integrators that specialize in video delivery solutions, products and services.

We have no long-term contracts or minimum purchase commitments with any of our 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 be effective in providing incentives to our VAR and systems integrator customers to favor their products or to prevent or reduce sales of our products. Our VAR or systems integrator customers may choose not to purchase or offer our products. Our failure to establish and maintain successful relationships with VAR and systems integrator customers would likely materially and adversely affect our business, operating results and financial condition.

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

We currently hold 39 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 cannot assure you 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 cannot assure you that others will not develop technologies that are similar or superior to our technology, duplicate our technology 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 investors therefore should 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, vendors and customers as needed, and generally limit access to and distribution of our proprietary information. Nevertheless, we cannot assure you 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 resources and could negatively affect our business, operating results, financial position or cash flows.

In order to successfully develop and market certain of our planned products for digital applications, 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 will be negotiated on terms acceptable to us, 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 cause our business to suffer.

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 and we may not be able to secure alternatives in a timely manner, 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.

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 patent, copyright, trademark and other intellectual property rights against us or our customers. Our suppliers and customers 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 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, temporary or permanent injunctions or require us to seek licenses from third parties or pay royalties that may be substantial. Furthermore, necessary licenses may not be available on satisfactory terms, or at all.

On July 3, 2003, Stanford University and Litton Systems filed a complaint in U.S. District Court for the Central District of California alleging that optical fiber amplifiers incorporated into certain of our products infringe U.S. Patent No. 4859016. This patent expired in September 2003. The complaint sought injunctive relief, royalties and damages. On August 6, 2007, the District Court granted our motion to dismiss. The plaintiffs have appealed this motion. At this time, we are unable to determine whether we will be able to settle this litigation on reasonable terms or at all, nor can we predict the impact of an adverse outcome of this litigation if we elect to defend against it. No estimate can be made of the possible range of loss associated with the resolution of this contingency and accordingly, we have not recorded a liability associated with the outcome of a negotiated settlement or an unfavorable verdict in litigation. A settlement or an unfavorable outcome of this matter could have a material adverse effect on our business, operating results, financial position or cash flows.

Our suppliers and customers may receive similar claims. We have agreed to indemnify some of our suppliers and customers for alleged patent infringement. The scope of this indemnity varies, but, in some instances, includes indemnification for damages and expenses (including reasonable attorney’s fees).

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

On July 3, 2003, Stanford University and Litton Systems filed a complaint in U.S. District Court for the Central District of California alleging that optical fiber amplifiers incorporated into certain of our products infringe U.S. Patent No. 4859016. This patent expired in September 2003. The complaint sought injunctive relief, royalties and damages. On August 6, 2007, the District Court granted our motion to dismiss. The plaintiffs have appealed this motion.

In addition, we are involved in other litigation and may be subject to claims arising in the normal course of business. An unfavorable outcome of any of these litigation matters 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 could prevent us from selling certain of our products. In addition, we may decide to settle any litigation, which could cause us to incur significant costs. A settlement or an unfavorable outcome of these litigation matters could have a material adverse effect on our business, operating results, financial position or cash flows.

We have reached a tentative agreement to settle outstanding securities class action claims which is subject to certain contingencies, including final execution of a definitive settlement agreement, funding by our insurers, and court approval.

In 2000, several actions alleging violations of the federal securities laws by Harmonic and certain of its officers and directors (some of whom are no longer with Harmonic) were filed in or removed to the U.S. District Court (the “District Court”) for the Northern District of California. The actions subsequently were consolidated.

A consolidated complaint, filed on December 7, 2000, was brought on behalf of a purported class of persons who purchased Harmonic’s publicly traded securities between January 19, 2000 and June 26, 2000. The complaint also alleged claims on behalf of a purported subclass of persons who purchased C-Cube securities between January 19, 2000 and May 3, 2000. In addition to Harmonic and certain of its officers and directors, the complaint also named C-Cube Microsystems Inc. and several of its officers and directors as defendants. The complaint alleged that, by making false or misleading statements regarding Harmonic’s prospects and customers and its acquisition of C-Cube, certain defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The complaint also alleged that certain defendants violated Section 14(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, or the Securities Act, by filing a false or misleading registration statement, prospectus and joint proxy in connection with the C-Cube acquisition.

Following a series of procedural actions at the District Court and at the United States Court of Appeals for the Ninth Circuit, a significant number of the claims alleged in the plaintiffs’ amended complaint were dismissed, including all claims against C-Cube and its officers and directors.

However, certain of the plaintiffs’ claims survived dismissal. In January 2007, the District Court set a trial date for August 2008, and also ordered the parties to participate in mediation. A derivative action purporting to be on our behalf was filed in the Superior Court for the County of Santa Clara against certain current and former officers and directors on May 15, 2003. It alleges facts similar to those alleged in the securities class action and names us as a nominal defendant. The action remains pending with no trial date set.

As a result of discussions and negotiations between plaintiffs’ counsel and Harmonic, and Harmonic and its insurance carriers, a tentative agreement was reached in March 2008 to resolve the securities class action lawsuit. If finalized, the settlement would release Harmonic, its officers, directors and insurance carriers from all claims brought in the lawsuit by the plaintiffs against Harmonic or its officers and directors, without any admission of fault on the part of Harmonic or its officers and directors. This tentative agreement remains subject to certain contingencies, including negotiation and execution by the parties of a written settlement agreement, funding by our insurance carriers, and approval by the District Court.

Under the terms of the tentative agreement to settle the securities class action lawsuit, Harmonic and its insurance carriers will pay $15.0 million in consideration to the plaintiffs in the securities class action. Of this amount, Harmonic will pay $5.0 million, and Harmonic’s insurance carriers in addition to having funded most litigation costs to date, will contribute the remaining $10.0 million on behalf of the individual defendants. The plaintiffs’ lawyers will apply for an award of fees and costs in an unspecified amount to be paid from the $15.0 million in consideration and subject to the approval of the District Court. In addition, Harmonic estimates that it will pay approximately $1.4 million in related legal fees and expenses in connection with proceedings in the securities class action and derivative lawsuits. Harmonic expects to pay its share of the settlement promptly following preliminary approval of the settlement by the District Court. Harmonic expects that preliminary approval will occur during the second or third quarter of 2008.

There can be no assurance that the settlement will be finalized and that a definitive settlement agreement will be executed by the parties, either on the terms set forth above or at all. Further, even if we execute a definitive settlement agreement, we cannot be certain that the District Court will approve the settlement or that all conditions necessary to effectuate the settlement will occur. If a definitive settlement agreement is not executed by the parties and approved by the District Court, or if for any reason the settlement does not become final, Harmonic and its officers and directors will be required to continue to defend themselves in the securities class action litigation, and must be prepared to go to trial in August 2008 under the current schedule. An adverse verdict in the trial could require that we pay substantial damages. Any subsequent attempt to settle the litigation could be on terms less favorable to Harmonic than those set forth in the tentative agreement described above. In addition, as we are continuing to defend the derivative action, we can offer no assurance that we will be able to reach a favorable settlement or judgment in that matter. A subsequent settlement of the securities class action on terms that are different from those outlined above, or an unfavorable outcome of the securities class action or derivative litigation, could have a material adverse effect on our business, operating results, financial position or cash flows.

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 U.S. 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 and export quotas, which could have a significant impact on our revenue and profitability. While we have not encountered significant difficulties in connection with the sales of our products in international markets, the future imposition of significant increases in the level of customs duties or export quotas could have a material adverse effect on our business.

The terrorist attacks of 2001 and the ongoing threat of terrorism have created great uncertainty and may continue to harm our business.

Current conditions in the U.S. and global economies are uncertain. The terrorist attacks in the U.S. in 2001 and subsequent terrorist attacks in other parts of the world have created many economic and political uncertainties that have severely impacted the global economy, and have adversely affected our business. For example, following the 2001 terrorist attacks in the U.S., we experienced a further decline in demand for our products. The long-term effects of the attacks, the situation in Iraq and the ongoing war on terrorism on our business and on the global economy remain unknown. Moreover, the potential for future terrorist attacks has created additional uncertainty and makes it difficult to estimate the stability and strength of the U.S. and other economies and the impact of economic conditions on our business.

We rely on a continuous power supply to conduct our operations, and any electrical and natural gas crisis could disrupt our operations and increase our expenses.

We rely on a continuous power supply for manufacturing and to conduct our business operations. Interruptions in electrical power supplies in California in the early part of 2001 could recur in the future. In addition, the cost of electricity and natural gas has risen significantly. Power outages could disrupt our manufacturing and business operations and those of many of our suppliers, and could cause us to fail to meet production schedules and commitments to customers and other third parties. Any disruption to our operations or those of our suppliers could result in damage to our current and prospective business relationships and could result in lost revenue and additional expenses, thereby harming our business and operating results.

The markets in which we, our customers and our suppliers operate are subject to the risk of earthquakes and other natural disasters.

Our headquarters and the majority of our operations are located in California, which is prone to earthquakes, and some of the other locations in which we, our customers and suppliers conduct business are prone to natural disasters. In the event that any of our business centers are affected by any such disasters, we may sustain damage to our operations and properties and suffer significant financial losses. Furthermore, we rely on third-party manufacturers for the production of many of our products, and any disruption in the business or operations of such manufacturers could adversely impact our business. 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. A major earthquake or other natural disaster in the markets in which we, our customers or suppliers operate could have a material adverse effect on our business, financial condition, results of operations or 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, each of which 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 Harmonic common stock;

- limiting the liability of, and providing indemnification to, 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 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 and changes in control or management of us.

In addition, we have adopted a stockholder rights plan. The rights are not intended to prevent a takeover of us, and we believe these rights will help our negotiations with any potential acquirers. However, if the Board of Directors believes that a particular acquisition 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 your investment 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 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. Investors may be unable to resell their shares of our common stock at or above the purchase price.

Our stock price may decline if additional shares are sold in the market.

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 may be required to issue additional shares upon exercise of previously granted options that are currently outstanding. Increased sales of our common stock in the market after exercise of currently outstanding options could exert significant 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.

If securities analysts do not continue to publish research or reports about our business, or if they downgrade our stock, the price of our stock could decline.

The trading market for our common stock relies in part on the availability of research and reports that third-party industry or financial analysts publish about us. Further, 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

All of our facilities are leased, including our principal operations and corporate headquarters in Sunnyvale, California. We also have a research and development center in New York, several sales offices in the U.S., sales and support centers in the United Kingdom, France, and China, and research and development centers in Israel and Hong Kong. Our leases, which expire at various dates through January 2011, are for approximately 407,000 square feet of space. We believe that these facilities are adequate for our current needs, and that suitable additional space will be available as needed to accommodate the foreseeable expansion of our operations.

In the U.S., of the 350,000 square feet under lease, approximately 178,000 square feet is in excess of our requirements and we no longer occupy, do not intend to occupy, and have subleased, or plan to sublease. The estimated loss on subleases has been included in the excess facilities charges recorded in 2001, 2002, 2006 and 2007. In the fourth quarter of 2005 we subleased a portion of an unoccupied building for the remaining term of the lease which resulted in a $1.1 million reduction to the excess facilities liability. In the third quarter of 2006 we completed the facilities rationalization plan of our Sunnyvale campus which resulted in more efficient use of our leased space and we vacated several buildings and recorded a net charge of $2.1 million for excess facilities. In the third quarter of 2007 we extended a sublease for the remaining term of a lease which resulted in a $1.8 million reduction to the excess facilities liability. In addition, in 2007 we recorded a restructuring charge of $0.4 million on a reduction in estimated sublease income for a Sunnyvale building, and a charge of $0.5 million from the closure of the manufacturing and research and development activities of Broadcast Technology Limited.

Item 3. Legal Proceedings

SHAREHOLDER LITIGATION

In 2000, several actions alleging violations of the federal securities laws by Harmonic and certain of its officers and directors (some of whom are no longer with Harmonic) were filed in or removed to the United States District Court (the “District Court”) for the Northern District of California. The actions subsequently were consolidated.

A consolidated complaint, filed on December 7, 2000, was brought on behalf of a purported class of persons who purchased Harmonic’s publicly traded securities between January 19, 2000 and June 26, 2000. The complaint also alleged claims on behalf of a purported subclass of persons who purchased C-Cube securities between January 19, 2000 and May 3, 2000. In addition to Harmonic and certain of its officers and directors, the complaint also named C-Cube Microsystems Inc. and several of its officers and directors as defendants. The complaint alleged that, by making false or misleading statements regarding Harmonic’s prospects and customers and its acquisition of C-Cube, certain defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The complaint also alleged that certain defendants violated section 14(a) of the Exchange Act and sections 11, 12(a)(2), and 15 of the Securities Act of 1933, or the Securities Act, by filing a false or misleading registration statement, prospectus, and joint proxy in connection with the C-Cube acquisition.

Following a series of procedural actions at the District Court and at the United States Court of Appeals for the Ninth Circuit, a significant number of the claims alleged in the plaintiffs’ amended complaint were dismissed, including all claims against C-Cube and its officers and directors. However, certain of the plaintiffs claims survived dismissal. In January 2007, the District Court set a trial date for August 2008, and also ordered the parties to participate in mediation.

A derivative action purporting to be on our behalf was filed in the Superior Court for the County of Santa Clara against certain current and former officers and directors on May 15, 2003. It alleges facts similar to those alleged in the securities class action and names us as a nominal defendant. The action remains pending with no trial date set.

As a result of discussions and negotiations between plaintiffs' counsel and Harmonic, and Harmonic and its insurance carriers, a tentative agreement was reached in March 2008 to resolve the securities class action lawsuit. If finalized, the tentative agreement would release Harmonic, its officers, directors and insurance carriers from all claims brought in the lawsuit by the plaintiffs against Harmonic or its officers and directors, without any admission of fault on the part of Harmonic or its officers and directors. This tentative agreement remains subject to certain contingencies, including negotiation and execution by the parties of a written settlement agreement, funding by our insurance carriers, and approval by the District Court.

Under the terms of the tentative agreement to settle the securities class action lawsuit, Harmonic and its insurance carriers will pay $15.0 million in consideration to the plaintiffs in the securities class action. Of this amount, Harmonic will pay $5.0 million, and Harmonic's insurance carriers in addition to having funded most litigation costs to date, will contribute the remaining $10.0 million on behalf of the individual defendants. The plaintiffs' lawyers will apply for an award of fees and costs in an unspecified amount to be paid from the $15.0 million in consideration and subject to the approval of the District Court. In addition, Harmonic estimates that it will pay approximately $1.4 million in related legal fees and expenses in connection with proceedings in the securities class action and derivative lawsuits. Harmonic expects to pay its share of the settlement promptly following preliminary approval of the settlement by the District Court. Harmonic expects that preliminary approval will occur during the second or third quarter of 2008.

OTHER LITIGATION

On July 3, 2003, Stanford University and Litton Systems filed a complaint in U.S. District Court for the Central District of California alleging that optical fiber amplifiers incorporated into certain of Harmonic's products infringe U.S. Patent No. 4859016. This patent expired in September 2003. The complaint sought injunctive relief, royalties and damages. On August 6, 2007, the District Court granted our motion to dismiss. The plaintiffs have appealed this motion. An unfavorable outcome of any of these litigation matters could require that Harmonic pay substantial damages, or, in connection with any intellectual property infringement claims, could require that we pay ongoing royalty payments or could prevent us from selling certain of our products. A settlement or an unfavorable outcome of these litigation matters could have a material adverse effect on Harmonic's business, operating results, financial position or cash flows.

Harmonic is involved in other litigation and may be subject to claims arising in the normal course of business. In the opinion of management the amount of ultimate liability with respect to these matters in the aggregate will not have a material adverse effect on the Company or its operating results, financial position or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of the year ended December 31, 2007.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stock Holder Matters, and Issuer Purchases of Equity Securities

(a) *Market information:* Harmonic's common stock is traded on the NASDAQ Global Market under the symbol HLIT, and has been listed on NASDAQ since Harmonic's initial public offering on May 22, 1995. The following table sets forth, for the periods indicated, the high and low sales price per share of the Common Stock as reported on the Nasdaq Global Market:

	High	Low
2006		
First quarter	$ 6.95	$ 4.78
Second quarter	6.85	3.79
Third quarter	7.75	3.90
Fourth quarter	8.67	6.92
2007		
First quarter	$ 11.07	$ 7.04
Second quarter	11.18	7.94
Third quarter	10.86	7.76
Fourth quarter	12.95	9.63

Holders of record: At February 29, 2008 there were 419 stockholders of record of Harmonic's Common Stock.

Dividends: Harmonic has never declared or paid any dividends on its capital stock. Harmonic currently expects to retain future earnings, if any, for use in the operation and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future. Harmonic's line of credit includes covenants prohibiting the payment of dividends.

Securities authorized for issuance under equity compensation plans: The disclosure required by Item 201(d) of Regulation S-K is set forth in the 2008 Proxy Statement under the caption "Equity Plan Information" and is incorporated herein by reference.

Sales of unregistered securities: On July 31, 2007, Harmonic completed the acquisition of Rhozet Corporation pursuant to a merger transaction. In connection with the acquisition, Harmonic paid an aggregate consideration of approximately $15.5 million, which was comprised of (i) approximately $2.5 million in cash and 1,105,656 shares of Harmonic's common stock in exchange for all the issued and outstanding capital stock of Rhozet, and (ii) approximately $2.8 million of cash which was paid in the first quarter of 2008, as provided in the definitive agreement related to such acquisition, to the holders of options to acquire Rhozet's common stock that were outstanding immediately prior to the effective time of the merger. In connection with such sale of its common stock, Harmonic relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

(b) *Use of proceeds:* Not applicable.

(c) *Purchase of equity securities by the issuer and affiliated purchasers:* During the three months ended December 31, 2007, Harmonic did not, nor did any of its affiliated entities, repurchase any of Harmonic's equity securities.

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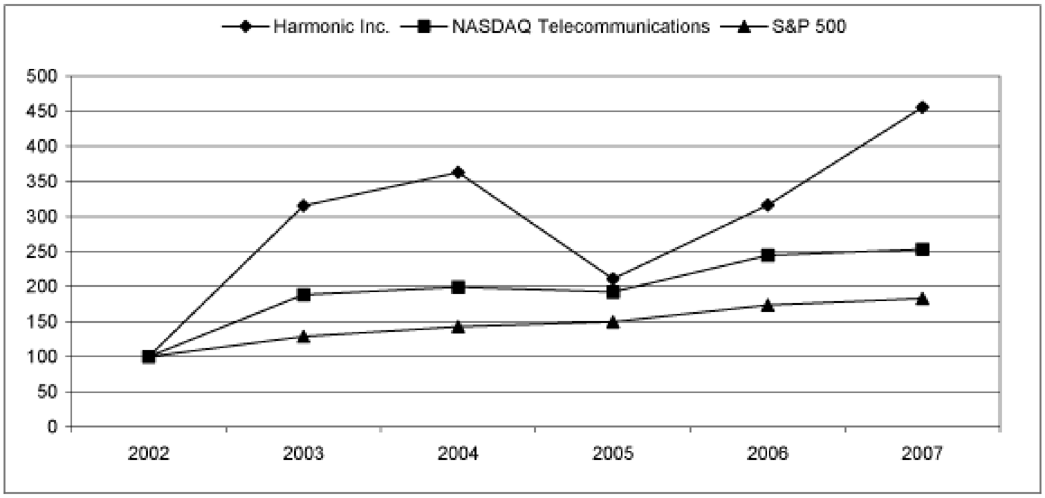
PERFORMANCE GRAPH

Set forth below is a line graph comparing the annual percentage change in the cumulative return to the stockholders of the Company's common stock with the cumulative return of the NASDAQ Telecom Index and of the Standard & Poor's (S&P) 500 Index for the period commencing December 31, 2002 and ending on December 31, 2007. The graph assumes that $100 was invested in each of the Company's common stock, the S&P 500 and the NASDAQ Telecom Index on December 31, 2002, and assumes the reinvestment of dividends, if any. The comparisons shown in the graph below are based upon historical data. Harmonic cautions that the stock price performance shown in the graph below is not indicative of, nor intended to forecast, the potential future performance of the Company's common stock.



	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Harmonic Inc.	100.00	315.22	362.61	210.87	316.09	455.65
NASDAQ Telecom Index	100.00	188.21	199.04	192.18	244.38	253.12
S&P 500 Index	100.00	128.68	142.69	149.70	173.34	182.87

Item 6. Selected Financial Data

The data set forth below are qualified in their entirety by reference to, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Consolidated Statement of Operations Data					
Net sales	$ 311,204	$247,684	$257,378	$248,306	$182,276
Gross profit(1)	134,075	101,446	93,948	104,495	60,603
Income (loss) from operations(1)(2)	19,258	(3,722)	(7,044)	1,436	(30,545)
Net income (loss)(1)	23,421	1,007	(5,731)	1,574	(29,433)
Basic net income (loss) per share	0.29	0.01	(0.08)	0.02	(0.47)
Diluted net income (loss) per share	0.28	0.01	(0.08)	0.02	(0.47)
Consolidated Balance Sheet Data					
Cash, cash equivalents and short-term investments	$269,260	$ 92,371	$ 110,828	$ 100,607	$ 112,597
Working capital	283,276	97,398	117,353	117,112	95,389
Total assets	475,779	281,962	226,297	242,356	224,726
Long term debt, including current portion	—	460	1,272	2,339	1,656
Stockholders' equity	334,413	145,134	112,982	110,557	106,161

1. The 2007 income from operations and net income included a charge of $6.4 million for the expected settlement of the securities class action lawsuit, a restructuring charge of $0.4 million on a reduction in estimated sublease income for a Sunnyvale building and a charge of $0.5 million from the closure of the manufacturing and research and development activities of Broadcast Technology Limited. This was partially offset by a credit of $1.8 million from a revised estimate of expected sublease income due to the extension of a sublease of a building to the lease expiration. The acquisition of Rhozet in July 2007 resulted in a charge of $0.7 million related to the write-off of acquired in-process technology.

   The 2006 gross profit, loss from operations and net income included a charge of $3.0 million for restructuring charges associated with a management reduction and a campus consolidation. An impairment expense of $1.0 million was recorded in 2006 due to the writedown of the remaining balance of the BTL intangibles.

   The 2005 gross profit, loss from operations and net loss included a charge of $8.4 million for the writedown of inventory resulting primarily from the introduction of new products and the related obsolescence of existing inventory. Operating expenses included an expense of $1.1 million for severance costs from the consolidation of the Company's two operating segments into a single segment effective as of January 1, 2006, and a benefit of $1.1 million from the reversal of previously recorded excess facilities costs due to subleasing an excess facility.

   The 2004 gross profit, income from operations and net income included credits of $4.0 million for products sold during the year that had been written down in prior years.

   The 2003 gross profit, loss from operations and net loss included credits of $4.7 million for products sold during the year that had been written down in prior years. Operating expenses included credits of $2.2 million from the sale of our bankruptcy claims in Adelphia Communications resulting in the reversal of previously recorded bad debt provisions, and a litigation settlement charge of $2.7 million related to Power and Telephone Supply.

2. Income (loss) from operations for 2007, 2006, 2005, 2004 and 2003 included amortization and impairment expenses of intangible assets of $5.3 million, $2.2 million, $2.6 million, $13.9 million and $13.9 million, respectively. In 2006 an impairment charge of $1.0 million was recorded to write-off the remaining balance of the intangibles from the BTL acquisition.

3. On January 1, 2006, we adopted FAS 123(R), "Share-Based Payment," which required the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases related to our Employee Stock Purchase Plan based upon the grant-date fair value of those awards.

4. On January 1, 2007, we adopted FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109" ("FIN 48"). The effect of adopting this pronouncement was an increase in the Company's accumulated deficit of $2.1 million for interest and penalties related to unrecognized tax benefits that existed at January 1, 2007.

5. On December 8, 2006, we acquired Entone Technologies, Inc. for a purchase price of $48.9 million. Entone markets a software solution which facilitates the provisioning of personalized video services, including video-on-demand, network personal video recording, time-shifted television and targeted advertisement insertion. See Note 3 "Acquisitions" of the Company's Consolidated Financial Statements for additional information.

6. On July 31, 2007, we acquired Rhozet Corporation for a purchase price of $16.2 million. Rhozet develops and markets software-based transcoding solutions that facilitate the creation of multi-format video for internet, mobile and broadcast solutions. See Note 3 "Acquisitions" of the Company's Consolidated Financial Statements for additional information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We design, manufacture and sell versatile and high performance video products and system solutions that enable service providers to efficiently deliver the next generation of broadcast and on-demand services, including high-definition television, or HDTV, video-on-demand, or VOD, network personal video recording and time-shifted TV. Historically, the majority of our sales have been derived from sales of video processing solutions and edge and access systems to cable television operators and from sales of video processing solutions to direct-to-home satellite operators. We also provide our video processing solutions to telecommunications companies, or telcos, broadcasters and Internet companies that offer video services to their customers.

Harmonic's net sales increased 26% in 2007 from 2006, and decreased 4% in 2006 from 2005. The increase in sales in 2007 compared to 2006 was primarily due to stronger demand from our domestic and international satellite operators and our domestic cable operators, and sales of our recently introduced products. The decrease in sales in 2006 compared to 2005 was primarily due to lower FTTP product sales and sales of third party products in 2006. We believe that the improvement in the industry capital spending environment has been, in part, a result of the intense competition between cable and satellite operators to offer more channels of digital video and new services, such as VOD and HDTV, and in part the result of the entry of telephone companies into the business of delivering video services to their subscribers. We also believe that the improvement has been due to more favorable conditions in industry capital markets and the completion or resolution of certain major business combinations, financial restructurings and regulatory issues.

Historically, a majority of our net sales have been to relatively few customers, and due in part to the consolidation of ownership of cable television and direct broadcast satellite systems, we expect this customer concentration to continue for the foreseeable future. In 2007, sales to Comcast and EchoStar accounted for 16% and 12% of net sales, respectively. Sales to Comcast accounted for 12% and 18% of net sales in 2006 and 2005, respectively.

Sales to customers outside of the U.S. in 2007, 2006, and 2005 represented 44%, 49%, and 40% of net sales, respectively. 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. Sales denominated in foreign currencies were approximately 7%, 11% and 7% of net sales in 2007, 2006 and 2005, respectively. We expect international sales to continue to account for a significant portion of our net sales for the foreseeable future.

In 2007, net sales increased by 26% compared to 2006, primarily due to stronger demand from domestic and international satellite operators and from domestic cable operators, and sales of our recently introduced products. The improved gross margin percentage was primarily due to higher gross margins from new products and an increase in the proportion of net sales from software, which has higher margins that our hardware products. In addition, in 2007 we continued to reduce our sales of FTTP products which have significantly lower gross margins than our other products. Our operating results for 2007 also included a charge of $6.4 million for the expected settlement of the securities class action lawsuit and a net credit of $0.3 million consisting of a $1.8 million credit from a revised estimate of expected sublease income due to the extension of a sublease of a building to the lease expiration which was partially offset by a charge of $0.4 million from a change in estimated sublease income for a Sunnyvale building and a charge of $0.5 million from the closure of the manufacturing and research and development activities of BTL.

In 2006, net sales decreased by 4% compared to 2005 which was primarily due to lower FTTP sales and sales of third party products. Harmonic reported net income of $1.0 million in 2006 which was primarily the result of higher gross margins. The improved gross margin percentage was primarily due to higher gross margins from new products and an increase in the proportion of net sales from software and services. In addition, we reduced our sales of FTTP and third party products which have significantly lower gross margins than our other products. Cost of sales and operating expenses include an expense for stock-based compensation of $5.7 million related to the adoption of SFAS 123(R).

Restructuring charges totaling $3.0 million were recorded in 2006 as a result of a management reorganization and a Sunnyvale campus consolidation.

Prior to 2006, Harmonic was organized into two operating divisions, Broadband Access Networks, or BAN, for fiber optic systems and Convergent Systems, or CS, for digital headend systems. Effective January 1, 2006, an organizational restructuring combined the Company's CS division and BAN division into a single segment with financial results reported as a single segment as of the first quarter of 2006.

Our quarterly and annual results may fluctuate significantly due to delays in project completion, revenue recognition policies and the timing of the receipt of orders. Harmonic often recognizes a significant portion, or the majority, of its revenues in the last month of the quarter. Harmonic establishes its expenditure levels for product development and other operating expenses based on projected sales levels, and expenses are relatively fixed in the short term. Accordingly, variations in timing of sales can cause significant fluctuations in operating results. In addition, because a significant portion of Harmonic's business is derived from orders placed by a limited number of large customers, the timing of such orders, delays in project completion and revenue recognition policies can also cause significant fluctuations in our operating results. Harmonic's expenses for any given quarter are typically based on expected sales and if sales are below expectations, our operating results may be adversely impacted by our inability to adjust spending to compensate for the shortfall.

In the fourth quarter of 2005, due to an organizational restructuring that combined our product development, marketing and manufacturing operations into a single segment, Harmonic reduced its workforce by approximately 40 employees and recorded severance charges of approximately $1.1 million. The acquisition of Entone in the fourth quarter of 2006 increased our headcount by 43 employees, primarily in research and development. The acquisition of Rhozet in July 2007 increased our headcount by 18 employees, primarily in research and development.

In May 2006, our Board of Directors appointed Patrick J. Harshman as President and Chief Executive Officer, replacing Anthony Ley, who retired after 18 years. Mr. Ley carries on as chairman of our Board of Directors and has a consulting agreement with Harmonic through June 2008. Following Dr. Harshman's appointment, we announced a reorganization of our senior management, resulting in a charge of approximately $1 million in severance costs in the second quarter of 2006.

In 2001 and 2002 excess facilities charges totaling $52.6 million were recorded due to Harmonic's reduced headcount, difficult business conditions and a weak local commercial real estate market. The excess facilities charges were for facilities that we no longer occupied, that we did not intend to occupy and that we planned to sublease. In 2003, the excess facilities liability was reduced by $3.3 million due to a revision in the assumptions as to the unoccupied portion of a building.

In the fourth quarter of 2005, the excess facilities liability was decreased by $1.1 million due to subleasing a portion of the unoccupied portion of one building for the remainder of the lease. Although we entered into new subleases for approximately 60,000 square feet of space in 2004, approximately 30,000 square feet of space in 2005 and approximately 65,000 square feet of space in 2006, in the event we are unable to achieve expected levels of sublease rental income, we will need to revise our estimate of the liability, which could materially impact our financial position, liquidity, cash flows and results of operations.

In the third quarter of 2006, we completed our facilities rationalization plan resulting in more efficient use of our Sunnyvale campus and vacated several buildings, some of which were subsequently subleased. This resulted in a net charge for excess facilities of $2.1 million in the third quarter of 2006.

In the third quarter of 2007, we recorded a credit of $1.8 million from a revised estimate of expected sublease income due to the extension of a sublease of a Sunnyvale building to the lease expiration. In addition, in 2007 we recorded a restructuring change of $0.4 million on a reduction in estimated sublease income for a Sunnyvale building, and a charge of $0.5 million from the closure of the manufacturing and research and development activities of Broadcast Technology Limited.

On December 8, 2006, Harmonic completed its acquisition of Entone Technologies, Inc. pursuant to the terms of the Agreement and Plan of Merger, or Entone Agreement dated August 21, 2006, for a total purchase consideration of $48.9 million. The purchase consideration consisted of a payment of $26.2 million, the issuance of 3,579,715 shares of Harmonic common stock with a value of $20.1 million, issuance of 175,342 options to purchase Harmonic common stock with a value of $0.2 million and acquisition related costs of $2.5 million. Under the terms of the Entone Agreement, Entone spun off its consumer premises equipment, or CPE, business into a separate private company prior to the closing of the merger. As part of the terms of the Entone Agreement, Harmonic purchased a convertible note with a face amount of $2.5 million in the new spun off private company in July 2007.

On July 31, 2007, Harmonic completed its acquisition of Rhozet Corporation, pursuant to the terms of the Agreement and Plan of Merger, or Rhozet Agreement, dated July 25, 2007. Under the Rhozet Agreement, Harmonic paid or will pay an aggregate of approximately $15.5 million in total merger consideration, comprised of approximately $2.5 million in cash, 1,105,656 shares of Harmonic's common stock in exchange for all of the outstanding shares of capital stock of Rhozet, and approximately $2.8 million of cash which was paid in the first quarter of 2008, as provided in the Rhozet Agreement, to the holders of outstanding options to acquire Rhozet common stock. In addition, in connection with the acquisition, Harmonic incurred approximately $0.7 million in transaction costs. Pursuant to the Rhozet Agreement, approximately $2.3 million of the total merger consideration, consisting of cash and shares of Harmonic common stock, are being held back by Harmonic for at least 18 months following the closing of the acquisition to satisfy certain indemnification obligations of Rhozet's shareholders pursuant to the terms of the Rhozet Agreement.

In the fourth quarter of 2007, we sold and issued 12,500,000 shares of common stock in a public offering at a price of $12.00 per share. our net proceeds from the offering were approximately $141.8 million, which was net of underwriters' discounts and commissions of approximately $7.4 million and related legal, accounting, printing and other costs totaling approximately $0.7 million. The net proceeds from the offering are expected to be used for general corporate purposes, including payment of existing liabilities, research and development, the development or acquisition of new products or technologies, equipment acquisitions, strategic acquisitions of businesses, general working capital and operating expenses. The offering was made pursuant to our Registration Statement on Form S-3 (File No. 333-123823) filed with the SEC on April 4, 2005, and declared effective by the SEC on April 22, 2005 and the related prospectus supplement filed with the SEC on October 31, 2007.

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. See Note 1 of Notes to Consolidated Financial Statements for details of Harmonic's accounting policies. Critical accounting policies, judgments and estimates which we believe have the most significant impact on Harmonic's financial statements are set forth below:

- 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 current litigation;

- Accounting for income taxes; and

- Stock-Based Compensation.

Revenue Recognition

Harmonic's principal sources of revenue are from sales of hardware products, software products, solution sales, services and hardware and software maintenance agreements. 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, collection is reasonably assured, and risk of loss and title have transferred to the customer.

We generally use contracts and customer purchase orders to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the sales price is fixed or determinable based on the payment terms associated with the transaction and whether the price is subject to refund or adjustment. We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

We evaluate our products to assess whether software is more-than-incidental to a product. When we conclude that software is more-than-incidental to a product, we account for the product as a software product. Revenue on software products and software-related elements are recognized in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition." Significant judgment may be required in determining whether a product is a software or hardware product.

Revenue from hardware product sales is recognized in accordance with the provisions of Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB 104"). Subject to other revenue recognition provisions, revenue on product sales is recognized when risk of loss and title has transferred, which is generally upon shipment or delivery, based on the terms of the arrangement. Revenue on shipments to distributors, resellers and systems integrators is generally recognized on delivery or sell-in. Allowances are provided for estimated returns and discounts. Such allowances are adjusted periodically to reflect actual and anticipated experience.

Distributors and systems integrators purchase our products for specific capital equipment projects of the end-user and do not hold inventory. They perform functions that include importation, delivery to the end-customer, installation or integration, and post-sales service and support. Our agreements with these distributors and systems integrators have terms which are generally consistent with the standard terms and conditions for the sale of our equipment to end users and do not provide for product rotation or pricing allowances, as are typically found in agreements with stocking distributors. We have long-term relationships with most of these distributors and systems integrators and substantial experience with similar sales of similar products. We have had extensive experience monitoring product returns from our distributors and accordingly, we have concluded that the amount of future returns and allowances can be reasonably estimated in accordance with Statement of Financial Accounting Standards ("SFAS") 48, "Revenue Recognition When Right of Return Exists", and SAB 104. With respect to these sales, we evaluate the terms of sale and recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sales price is fixed or determinable, collectibility is reasonably assured, and risk of loss and title have transferred.

When arrangements contain multiple elements, Harmonic evaluates all deliverables in the arrangement at the outset of the arrangement based on the guidance in Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). If the undelivered elements qualify as separate units of accounting based on the criteria in EITF 00-21, which include that the delivered elements have value to the customer on a stand-alone basis and that objective and reliable evidence of fair value exists for undelivered elements, Harmonic allocates the arrangement fee based on the relative fair value of the elements of the arrangement. If a delivered element does not meet the criteria in EITF 00-21 to be considered a separate unit of accounting, revenue is deferred until the undelivered elements are fulfilled. We establish fair value by reference to the price the customer is required to pay when an item is sold separately using contractually stated, substantive renewal rates, where applicable, or the average price of recently completed stand alone sales transactions. Accordingly, the determination as to whether appropriate objective and reliable evidence of fair value exists can impact the timing of revenue recognition for an arrangement.

For multiple element arrangements that include both hardware products and software products, Harmonic evaluates the arrangement based on EITF 03-5, “Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software.” In accordance with the provisions of EITF 03-5, the arrangement is divided between software-related elements and non-software deliverables. Software-related elements are accounted for as software. Software-related elements include all non-software deliverables for which a software deliverable is essential to its functionality. When software arrangements contain multiple elements and vendor specific objective evidence, or VSOE, of fair value exists for all undelivered elements, Harmonic accounts for the delivered elements in accordance with the “Residual Method” prescribed by SOP No. 98-9. In arrangements where VSOE of fair value is not available for all undelivered elements, we defer the recognition of all revenue until all elements have been delivered. Fair value of software-related elements is based on separate sales to other customers or upon renewal rates quoted in contracts when the quoted renewal rates are deemed to be substantive.

We also enter into solution sales for the design, manufacture, test, integration and installation of products to the specifications of Harmonic’s customers, including equipment acquired from third parties to be integrated with Harmonic’s products. These arrangements typically include the configuration of system interfaces between Harmonic product and customer/third party equipment, and optimization of the overall solution to operate with the unique features of the customer’s design and to meet customer-specific performance requirements. Revenue on these arrangements is generally recognized using the percentage of completion method in accordance with SOP 81-1, “Accounting for Performance of Construction/Production Contracts.” We measure performance under the percentage of completion method using the efforts-expended method based on labor hours expended in proportion to total estimated hours, based on current estimates of labor hours to complete the project. Management believes that for each such project, labor hours expended in proportion to total estimated hours at completion represents the most reliable and meaningful measure for determining a project’s progress toward completion. If the estimated costs to complete a project exceed the total contract amount, indicating a loss, the entire anticipated loss is recognized. Deferred revenue includes billings in excess of revenue recognized, net of deferred costs of sales. Our application of percentage-of-completion accounting is subject to our estimates of labor hours to complete each project. In the event that actual results differ from these estimates or we adjust these estimates in future periods, our operating results, financial position or cash flows for a particular period could be adversely affected.

Revenue from hardware and software maintenance agreements is recognized ratably over the term of the maintenance agreement. First year maintenance typically is included in the original arrangement and renewed on an annual basis thereafter. Services revenue is recognized on performance of the services and costs associated with services are recognized as incurred. Fair value of services such as consulting and training is based upon separate sales of these services.

Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. Because of the concentrated nature of our customer base, different judgments or estimates made for any one large contract or customer could result in material differences in the amount and timing of revenue recognized in any particular period.

Allowances for Doubtful Accounts, Returns and Discounts

We establish allowances for doubtful accounts, returns and discounts based on credit profiles of our customers, current economic trends, contractual terms and conditions and historical payment, return and discount experience, as well as for known or expected events. If there were to be a deterioration of a major customer’s creditworthiness or if actual defaults, returns or discounts were higher than our historical experience, our operating results, financial position or cash flows could be adversely affected. At December 31, 2007, our allowances for doubtful accounts, returns and discounts totaled $8.2 million.

Valuation of Inventories

Harmonic states inventories at the lower of cost or market. We write down the cost of excess or obsolete inventory to net realizable value based on future demand forecasts and historical demand. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to record additional charges for excess and obsolete inventory and our gross margin could be adversely affected. Inventory management is of critical importance in order to balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

Impairment of Goodwill or Long-lived Assets

We perform an evaluation of the carrying value of goodwill on an annual basis and of intangibles and other long-lived assets whenever we become aware of an event or change in circumstances that would indicate potential impairment. We evaluate the recoverability of intangible assets and other long-lived assets on the basis of undiscounted cash flows from each asset group. If impairment is indicated, provisions for impairment are determined based on fair value, principally using discounted cash flows. Changes in industry and market conditions or the strategic realignment of our resources could result in an impairment of identified intangibles, goodwill or long-lived assets. There can be no assurance that future impairment tests will not result in a charge to earnings. Our review of intangibles in 2006 determined that the remaining balance of $1.0 million of the intangibles acquired as a result of the BTL acquisition in February 2005 had been impaired based on the discontinuance of the decoder product line obtained in the acquisition. At December 31, 2007, our carrying values for goodwill and intangible assets totaled $45.8 million and $17.8 million, respectively.

Restructuring Costs and Accruals for Excess Facilities

To determine our excess facility accruals we estimate expected sublease rental income on each excess facility. In the event we are unable to achieve expected levels of sublease rental income, we will need to revise our estimate of the liability which could materially impact our operating results, financial position or cash flows. At December 31, 2007, our accrual for excess facilities totaled $16.0 million.

Assessment of the Probability of the Outcome of Current Litigation

Harmonic records accruals for loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Based on a tentative agreement to resolve its outstanding securities class action lawsuit, Harmonic believes that a probable and estimable liability has been incurred, and, accordingly, has recorded a provision of $6.4 million in its statement of operations for the year ended December 31, 2007. In other pending litigation, Harmonic believes that it either has meritorious defenses with respect to those actions and claims or is unable to predict the impact of an adverse action and, accordingly, no loss contingencies have been accrued. There can be no assurance, however, that we will prevail. An unfavorable outcome of these legal proceedings or failure to settle the securities litigation on the terms proposed could have a material adverse effect on our business, financial position, operating results or cash flows.

Accounting for Income Taxes

In preparation of our financial statements, we estimate our income taxes for each of the jurisdictions in which we operate. This involves estimating our actual current tax exposures and assessing temporary differences resulting from differing treatment of items, such as reserves and accruals, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. Based on our judgment that the likelihood that our deferred tax assets in the United States and certain foreign jurisdictions will be recovered from future taxable income is not more likely than not, we have maintained a full valuation allowance at December 31, 2007 in such jurisdictions.

Our income tax policy is to record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our accompanying combined balance sheets, as well as operating loss and tax credit carryforwards. We follow the guidelines set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," or SFAS 109, regarding the recoverability of any tax assets recorded on the balance sheet and provide any necessary allowances as required. Determining necessary allowances requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities. As of December 31, 2007, we had an approximate $112.3 million valuation allowance recorded as an offset against certain of our net deferred tax assets. In accordance with SFAS 109, we have evaluated our need for a valuation allowance based on historical evidence, trends in profitability and expectations of future taxable income. The Company will continue to monitor available positive and negative evidence in future periods to determine if any or all of the remaining valuation allowance should be released. If we were to release the entire $112.3 million valuation allowance it would result in a credit to tax expense of $105.6 million, a credit to goodwill of $5.2 million and a credit to additional paid in capital within stockholders' equity of $1.5 million. In periods following the release of our valuation allowance our expectation is that the Company will experience a substantial increase in our effective tax rate.

We are subject to examination of our income tax returns by various tax authorities on a periodic basis. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. We adopted the provisions of FIN 48 as of the beginning of 2007. Prior to adoption, our policy was to establish reserves that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of resolution. FIN 48 requires application of a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions. If the recognition threshold is met, FIN 48 permits us to recognize a tax benefit measured at the largest amount of tax benefit that, in our judgment, is more than 50 percent likely to be realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter of such change.

We file annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes reflect the most likely outcome. We adjust these reserves and penalties as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

Stock-based Compensation

On January 1, 2006, the Company adopted SFAS 123(R), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases related to our Employee Stock Purchase Plan ("ESPP") based upon the grant-date fair value of those awards. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, and provided the required pro forma disclosures prescribed by SFAS 123, "Accounting for Stock-Based Compensation," ("SFAS 123") as amended. In addition, we have applied the provisions of SAB 107, issued by the Securities and Exchange Commission, in our adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified-prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's Consolidated Financial Statements as of and for the years ended December 31, 2007 and 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the years ended December 31, 2007 and 2006 was $6.2 million and $5.7 million, respectively, which consisted of stock-based compensation expense related to employee equity awards and employee stock purchases. There was no stock-based compensation expense related to employee equity awards and employee stock purchases recognized during the year ended December 31, 2005.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for employee equity awards and employee stock purchases using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Consolidated Statement of Operations because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statement of Operations for the years ended December 31, 2007 and 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock-based compensation costs to expense from the accelerated multiple-option method to the straight-line single-option method. Compensation expense for all share-based payment awards granted on or prior to December 31, 2005 will continue to be recognized using the accelerated approach while compensation expense for all share-based payment awards related to stock options and employee stock purchase rights granted subsequent to December 31, 2005 are recognized using the straight-line method.

As stock-based compensation expense recognized in our results for the years ended December 31, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to fiscal year 2006, we accounted for forfeitures as they occurred for the purposes of pro forma information under SFAS 123, as disclosed in our Notes to Consolidated Financial Statements for the related periods.

The fair value of share-based payment awards is estimated at grant date using a Black-Scholes option pricing model. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as the assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based payment Awards," ("FSP 123(R)-3"). We elected to adopt the alternative transition method provided in the FSP 123(R)-3 for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method provides a simplified method to establish the beginning balance of the additional paid-in-capital pool ("APIC Pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC Pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R). The adoption of FSP 123(R)-3 did not have an impact on our overall consolidated financial position, results of operations or cash flows.

Consistent with prior years, we use the "with and without" approach as described in EITF Topic No. D-32 in determining the order in which our tax attributes are utilized. The "with and without" approach results in the recognition of the windfall stock option tax benefits only after all other tax attributes of ours have been considered in the annual tax accrual computation. Also consistent with prior years, we consider the indirect effects of the windfall deduction on the computation of other tax attributes, such as the R&D credit and the domestic production activities deduction, as an additional component of equity. This incremental tax effect is recorded to additional paid-in-capital when realized.

RESULTS OF OPERATIONS

Harmonic's historical consolidated statements of operations data for each of the three years ended December 31, 2007, 2006, and 2005 as a percentage of net sales, are as follows:

	Fiscal Year Ended December 31,		
	2007	2006	2005
Net sales	100%	100%	100%
Cost of sales	57	59	64
Gross profit	43	41	36
Operating expenses:			
Research and development	14	16	15
Selling, general and administrative	23	26	24
Write-off of acquired in-process technology	—	—	—
Amortization of intangibles	—	—	—
Total operating expenses	37	42	39
Income (loss) from operations	6	(1)	(3)
Interest and other income, net	2	2	1
Income (loss) before income taxes	8	1	(2)
Provision for income taxes	1	—	—
Net income (loss)	7%	1%	(2)%

Net Sales

Net Sales — Consolidated

Harmonic's consolidated net sales as compared with the prior year, for each of the three years ended December 31, 2007, 2006 and 2005, are presented in the table below. Also presented is the related dollar and percentage change in consolidated net sales as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Product Sales Data:			
Video Processing	$ 134,744	$ 96,855	$ 125,416
Edge and Access	125,270	109,529	96,645
Software, Support and Other	51,190	41,300	35,317
Net sales	$ 311,204	$ 247,684	$ 257,378
Video Processing increase (decrease)	$ 37,889	$ (28,561)	
Edge and Access increase	15,741	12,884	
Software, Support and Other increase	9,890	5,983	
Total increase (decrease)	$ 63,520	$ (9,694)	
Video Processing percent change	39.1%	(22.8)%	
Edge and Access percent change	14.4%	13.3%	
Software, Support and Other percent change	23.9%	16.9%	
Total percent change	25.6%	(3.8)%	

Net sales increased in 2007 compared to 2006 principally due to stronger demand from domestic and international satellite operators and domestic cable operators, and sales of our recently introduced products. In the video processing product line, the sales increase in 2007 compared to the same period in the prior year was primarily due to higher spending across all types of customers except telco. The increase in the edge and access product lines was principally attributable to an increase of approximately $27.4 million in sales of VOD and video transmission products for deployments for domestic and international cable operators, offset by a decrease of $11.6 million in sales of lower margin FTTP products. Software and other revenue increased in 2007 compared to 2006 primarily due to sales of recently introduced software products, including products acquired from the acquisitions of Entone and Rhozet. Service and support revenue, consisting of maintenance agreements, system integration and customer repairs, increased in 2007 compared to 2006 principally due to an increased customer base.

Net sales decreased in 2006 compared to 2005 principally due to the decrease in the sale of FTTP products and third party products to our end customers, delays in the completion of certain projects for international telco customers and decreased spending by domestic cable customers for major digital headend projects. In the video processing product line, sales of encoder and stream processing products decreased by approximately $12.1 million in 2006 compared to 2005 due to lower spending for major digital headend projects by domestic cable companies. In addition, sales of third party products to end customers decreased by approximately $15.7 million in 2006 compared to 2005. The decrease in our net sales in 2006 from 2005 were partially offset by increases in sales from our edge and access products line. Sales of VOD products increased as telcos and cable operators continued to introduce and expand video and other services, primarily in the U.S. and European markets. These increases were partially offset by a decrease in FTTP sales to a major domestic telco customer.

Net Sales — Geographic

Harmonic’s domestic and international net sales as compared with the prior year, for each of the three years ended December 31, 2007, 2006 and 2005, are presented in the table below. Also presented is the related dollar and percentage change in domestic and international net sales as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Geographic Sales Data:			
U.S.	$ 175,257	$ 126,420	$ 153,264
International	135,947	121,264	104,114
Net sales	$ 311,204	$ 247,684	$ 257,378
U.S. increase (decrease)	$ 48,837	$ (26,844)	
International increase	14,683	17,150	
Total increase (decrease)	$ 63,520	$ (9,694)	
U.S. percent change	38.6%	(17.5)%	
International percent change	12.1%	16.5%	
Total percent change	25.6%	(3.8)%	

Net sales in the U.S. increased in 2007 compared to 2006 primarily due to stronger demand from our domestic satellite and cable operators, partially offset by lower sales of FTTP products to a domestic telco customer. International sales in 2007 increased compared to the corresponding periods in 2006 primarily due to stronger demand from satellite and cable customers for network expansion, primarily in South America, Asia and Europe, partially offset by lower sales in Canada. We expect that international sales will continue to account for a significant portion of our net sales for the foreseeable future.

Net sales in the U.S. decreased significantly in 2006 compared to 2005 primarily due to lower sales of third party products, lower spending for major digital headend projects by domestic cable companies and lower FTTP sales to a major domestic telco customer. International sales in the 2006 increased significantly compared to 2005 primarily due to sales to telcos in the European market. The increased international sales in 2006 as compared to 2005, was also due to increased international capital spending by customers, primarily in Europe, Canada and Asia.

Gross Profit

Harmonic's gross profit and gross profit as a percentage of consolidated net sales, for each of the three years ended December 31, 2007, 2006, and 2005 are presented in the table below. Also presented is the related dollar and percentage change in gross profit as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Gross profit	$ 134,075	$ 101,446	$ 93,948
As a % of net sales	43.1%	41.0%	36.5%
Increase	$ 32,629	$ 7,498	
Percent change	32.2%	8.0%	

The increase in gross profit in 2007 compared to 2006 was primarily due to increased sales, partially offset by an increased expense from the net writedown of excess and obsolete inventory of $6.4 million and an increase in expense of $3.0 million from amortization of intangibles. The gross margin percentage of 43.1% in 2007 compared to 41.0% in 2006 was higher primarily due to higher gross margins on recently introduced products and higher margin software sales, partially offset by increased expense from the writedown of excess and obsolete inventory and amortization of intangibles. In 2007, $4.7 million of expense related to intangibles was included in cost of sales compared to $1.7 million in 2006. We expect to record a total of approximately $5.4 million in amortization of intangibles in cost of sales in 2008 related to acquisitions of Entone and Rhozet.

The increase in gross profit in 2006 compared to 2005 was primarily due to an increase in gross margin, which was partially offset by higher amortization and impairment of intangibles and stock-based compensation expense. The gross margin percentage in 2006 compared to 2005 was higher primarily due to increased gross margins on video processing products from the introduction of new products and a higher proportion of software and service revenue, which carry higher gross margins than the average gross margins for our products, and lower sales of third party products to our end customers in 2006 compared to 2005, sales of which products have significantly lower gross margins than the average gross margin on sales of our products. In 2006, $1.7 million of expense related to intangibles was included in cost of sales compared to $1.3 million in 2005. As a result of the impairment of the intangibles associated with the BTL acquisition in 2005, an expense of $0.8 million was recorded in 2006. Stock-based compensation expense recorded to cost of sales was approximately $1.0 million in 2006 with no expense in 2005 due to the adoption of SFAS No. 123(R).

Research and Development

Harmonic's research and development expense and the expense as a percentage of consolidated net sales for each of the three years ended December 31, 2007, 2006, and 2005 are presented in the table below. Also presented is the related dollar and percentage change in research and development expense as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Research and development	$ 42,902	$ 39,455	$ 38,168
As a % of net sales	13.8%	15.9%	14.8%
Increase	$ 3,447	$ 1,287	
Percent change	8.7%	3.4%	

The increase in research and development expense in 2007 compared to 2006 was primarily the result of increased compensation expense of $4.3 million, depreciation expense of $0.5 million and stock-based compensation expense of $0.4 million, which was partially offset by lower facility and overhead expenses of $0.9 million, lower consulting expenses of $0.6 million and lower prototype materials expenses of $0.5 million associated with the development of new products. The increased compensation costs in 2007 were primarily related to the increased headcount associated with the acquisitions of Entone and Rhozet in December 2006 and July 2007, respectively, and higher incentive compensation expenses.

The increase in research and development expense in 2006 compared to 2005 was primarily the result of stock-based compensation expense of $1.6 million and increased use of outside consulting services associated with the development of new products of $1.5 million, which was partially offset by lower compensation expense of $0.9 million from reductions in headcount and lower prototype materials expense of $0.5 million.

Selling, General and Administrative

Harmonic's selling, general and administrative expense and the expense as a percentage of consolidated net sales, for each of the three years ended December 31, 2007, 2006, and 2005 are presented in the table below. Also presented is the related dollar and percentage change in selling, general and administrative expense as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Selling, general and administrative	$ 70,690	$ 65,243	$ 61,475
As a % of net sales	22.7%	26.3%	23.9%
Increase	$ 5,447	$ 3,768	
Percent change	8.3%	6.1%	

The increase in selling, general and administrative expenses in 2007 compared to 2006 was primarily due to a tentative litigation settlement and related expenses of $6.4 million, higher compensation expenses of $1.6 million and higher legal, accounting and tax expenses of $1.0 million, partially offset by a decrease in excess facilities expenses of $2.5 million, lower facility and overhead expenses of $0.4 million, lower depreciation expenses of $0.3 million and lower evaluation material expenses of $0.3 million. The higher compensation expense was primarily related to increased incentive compensation, and the higher legal, accounting and tax expenses were primarily due to personnel and acquisition related activities. The decrease in the excess facilities expenses was primarily due to a net credit of $1.4 million from a revised estimate of sublease income due to the extension of a sublease of a building, which was partially offset by a charge of $0.5 million from the closure of the BTL facility.

The increase in selling, general and administrative expenses in 2006 compared to 2005 was primarily due to stock-based compensation expense of $3.1 million due to the adoption of SFAS 123(R) in 2006, the net excess facilities charge of $2.1 million related to the campus consolidation and higher compensation expenses of $0.3 million, which were partially offset by lower facilities overhead expenses of $1.7 million, lower outside services expenses of $0.8 million and lower corporate governance costs of $0.5 million. The net excess facilities expense of $2.1 million in 2006 was the result of the campus consolidation, compared to the benefit of $1.1 million in 2005 from the subleasing of an existing excess facility.

Amortization and Write-off of Intangibles

Harmonic's amortization of intangibles expense charged to operating expenses, and the amortization of intangibles expense as a percentage of consolidated net sales, for each of the three years ended December 31, 2007, 2006, and 2005 are presented in the table below. Also presented is the related dollar and percentage change in amortization of intangibles expense as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Amortization of intangibles	$ 525	$ 470	$ 1,349
As a % of net sales	0.2%	0.2%	0.5%
Increase (decrease)	$ 55	$ (879)	
Percent change	11.7%	(65.2)%	

The increase in amortization of intangibles expense in 2007 compared to 2006 was due to the amortization of intangibles related to the acquisitions of Entone and Rhozet during the fourth quarter of 2006 and July 2007, respectively. Harmonic expects to record a total of approximately $0.8 million in amortization of intangibles in operating expenses in 2008 related to the intangible assets resulting from the acquisitions of Entone and Rhozet.

The decrease in amortization of intangibles expense in 2006 compared to 2005 was due to the completion of amortization of certain items acquired in connection with the BTL transaction during 2006, and the completion of amortization of the DiviCom intangible assets during the first quarter of 2005, which was partially offset by the expense of approximately $0.2 million for the impairment of the remaining BTL intangibles.

Interest Income, Net

Harmonic's interest income, net, and interest income, net as a percentage of consolidated net sales, for each of the three years ended December 31, 2007, 2006, and 2005 are presented in the table below. Also presented is the related dollar and percentage change in interest income, net as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Interest income, net	$ 6,117	$ 4,616	$ 2,665
As a % of net sales	2.0%	1.9%	1.0%
Increase	$ 1,501	$ 1,951	
Percent change	32.5%	73.2%	

The increase in interest income, net in 2007 compared to 2006 was primarily due to a higher investment portfolio balance during the year and higher interest rates on the cash and short-term investments portfolio. We completed an offering of our common stock in November 2007, which resulted in net proceeds of approximately $141.8 million.

The increase in interest income, net in 2006 compared to 2005 was primarily due to higher interest rates on the cash and short-term investments portfolio and lower interest expense due to a lower debt balance in 2006 as compared to 2005.

Other Income (Expense), Net

Harmonic's other income (expense), net, and other income (expense), net, as a percentage of consolidated net sales, for each of the three years ended December 31, 2007, 2006, and 2005 are presented in the table below. Also presented is the related dollar and percentage change in other income (expense), net, as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Other income (expense), net	$ 146	$ 722	$ (915)
As a % of net sales	—%	0.3%	(0.4)%
Increase (Decrease)	$ (576)	$ 1,637	
Percent change	(79.8)%	178.9%	

The decrease in other income, net in 2007 compared to 2006 was primarily due to lower gains on foreign exchange, resulting from a continuing decrease in the value of the U.S. dollar compared to the Euro and Pound Sterling in 2007.

The increase in other income, net in 2006 compared to other expense, net in 2005 was primarily due to the increase in gains on foreign exchange, resulting from a decrease in the value of the U.S. dollar compared to the Euro and Pound Sterling in 2006.

Income Taxes

Harmonic's provision for income taxes, and provision for income taxes as a percentage of consolidated net sales, for each of the three years ended December 31, 2007, 2006, and 2005 are presented in the table below. Also presented is the related dollar and percentage change in provision for income taxes as compared with the prior year, for each of the two years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Provision for income taxes	$ 2,100	$ 609	$ 437
As a % of net sales	0.7%	0.2%	0.2%
Increase	$ 1,491	$ 172	
Percent change	244.8%	39.4%	

The provisions for income taxes in 2007 and 2006 are principally due to federal alternative minimum tax and foreign income taxes. The provision for income taxes in 2005 was principally due to foreign income taxes. The valuation allowance was $130.7 million in 2005, decreased to $120.0 million in 2006 and decreased to $112.3 million in 2007. The valuation allowance is for the full amount of our net deferred tax assets in the United States and certain foreign jurisdictions that we have accumulated because of our historical operating losses, because realization of any future benefit from deductible temporary differences, net operating losses and tax credit carry forwards was not more likely than not at December 31, 2007 and December 31, 2006. The federal and state net operating loss carryforwards may be subject to an annual limitation due to the ownership change provisions of the Internal Revenue Code Section 382. Our deferred tax liabilities related to purchase accounting for the Entone acquisition.

Segments

Through December 31, 2005, Harmonic's management used income from segment operations as its measure of segment profitability. Income from segment operations excludes intangible amortization expense, corporate expenses, including excess facilities charges, and interest and other income, net. Effective January 1, 2006, Harmonic implemented a new organizational structure, and we have operated as a single operating segment and reported our financial results as a single segment since that time. See Note 14 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Cash, cash equivalents and short-term investments	$ 269,260	$ 92,371	$ 110,828
Net cash provided by operating activities	$ 35,360	$ 8,634	$ 16,054
Net cash used in investing activities	$ (92,606)	$ (16,953)	$ (10,321)
Net cash provided by financing activities	$ 152,875	$ 3,884	$ 5,319

As of December 31, 2007, cash, cash equivalents and short-term investments totaled $269.3 million, compared to $92.4 million as of December 31, 2006. Cash provided by operations was $35.4 million in 2007, resulting from net income of $23.4 million, adjusted for $19.0 million in non-cash charges and a $7.0 million net change in assets and liabilities. The non-cash charges included depreciation, amortization, write-off of acquired in-process technology and stock-based compensation expense. The net change in assets and liabilities included a decrease in accounts payable primarily from the payment for inventory purchases, a decrease in accrued excess facilities costs, an increase in prepaid expenses primarily from the increase in deferred cost for projects, which was partially offset by a decrease in inventories and an increase in deferred revenue and an increase in accrued liabilities primarily from the provision for the tentative litigation settlement.

To the extent that non-cash items increase or decrease our future operating results, there will be no corresponding impact on our cash flows. After excluding the effects of these non-cash charges, the primary changes in cash flows relating to operating activities resulted from changes in working capital. Our primary source of operating cash flows is the collection of accounts receivable from our customers. Our operating cash flows are also impacted by the timing of payments to our vendors for accounts payable and other liabilities. We generally pay our vendors and service providers in accordance with the invoice terms and conditions. In addition, we usually pay our annual incentive compensation to employees in the first quarter.

Net cash used in investing activities was $92.6 million in 2007, resulting primarily from the net purchase of investments of $79.8 million, the payment of $5.9 million of capital expenditure primarily for test equipment, payment of $2.5 million in merger costs related to the Entone Technologies, Inc. acquisition in December 2006, the purchase of a convertible note from Entone, Inc. for $2.5 million, and a payment of $2.0 million to Rhozet shareholders. In accordance with the terms of the Rhozet acquisition, Harmonic paid $2.8 million to the Rhozet option holders in the first quarter of 2008. Harmonic currently expects capital expenditures to be in the range of $6 million to $8 million during 2008.

Net cash provided by financing activities was $152.9 million in 2007, resulting primarily from the net proceeds of $141.8 million received from the issuance of 12.5 million shares of common stock, proceeds of $8.3 million from the exercise of stock options and the sale of our common stock under our ESPP, less the repayment of $0.5 million of the remaining outstanding balance under our term loan facility.

Under the terms of the merger agreement with C-Cube, Harmonic is generally liable for C-Cube's pre-merger liabilities. Approximately $6.7 million of pre-merger liabilities remained outstanding at December 31, 2007 and are included in accrued liabilities. These liabilities represent estimates of C-Cube's pre-merger obligations to various tax authorities in eight countries. We are working with LSI Logic, which acquired C-Cube's spun-off semiconductor business from us in June 2001 and assumed its obligations, to settle these obligations, a process which has been underway since the merger in 2000. We paid $1.1 million to satisfy a portion of this liability in January 2008, but are unable to predict when the remaining obligations will be paid, or in what amount. The full amount of the estimated obligation has been classified as a current liability. To the extent that these obligations are finally settled for less than the amounts provided, Harmonic is required, under the terms of the merger agreement, to refund the difference to LSI Logic. Conversely, if the settlements are more than the remaining $5.6 million pre-merger liability balance after the January 2008 payments, LSI is obligated to reimburse Harmonic.

Harmonic has a bank line of credit facility with Silicon Valley Bank, which provides for borrowings of up to $10.0 million that matures on March 5, 2009. In March 2007, Harmonic paid in full the outstanding balance of its secured term loan for equipment and canceled its term loan facility as part of the renewal process for the bank line of credit. As of December 31, 2007, other than standby letters of credit and guarantees, there were no amounts outstanding under the line of credit facility and there were no borrowings in 2006 or 2007. This facility, which was amended and restated in March 2008, contains a financial covenant with the requirement for Harmonic to maintain cash, cash equivalents and short-term investments, net of credit extensions, of not less than $40.0 million. If Harmonic is unable to maintain this cash, cash equivalents and short-term investments balance or satisfy the affirmative covenant requirement, Harmonic would be in noncompliance with the facility. In the event of noncompliance by Harmonic with the covenants under the facility, Silicon Valley Bank would be entitled to exercise its remedies under the facility which include declaring all obligations immediately due and payable if obligations were not repaid. At December 31, 2007, Harmonic was in compliance with the covenants under this line of credit facility. The March 2008 amendment requires payment of approximately $20,000 of additional fees if the Company does not maintain an unrestricted deposit of $30.0 million with the bank for 10 consecutive days. Future borrowings pursuant to the line bear interest at the bank's prime rate (7.25% at December 31, 2007) or prime plus 0.5% for equipment borrowings. Borrowings are payable monthly and are not collateralized.

Harmonic's cash and investment balances at December 31, 2007 were $269.3 million. As of December 31, 2007, Harmonic held approximately $34.2 million of auction rate securities, or ARSs. As of February 29, 2008, we have $31.2 million invested in ARSs which are invested in municipal government obligations and preferred securities in closed-end mutual funds, and all have a credit rating of AA+ or better. Through February 29, 2008, auctions for approximately $31.2 million of these securities were not successful, resulting in our continuing to hold these securities and issuers paying interest at a maximum contractual rate. Based on current market conditions, it is likely that future auctions related to these securities will be unsuccessful in the near term. Unsuccessful auctions will result in our holding these securities beyond their next scheduled auction reset dates and limiting the short-term liquidity of these investments. While these failures in the auction process have affected our ability to access these funds in the near term, we do not believe that the underlying securities or collateral have been affected. If the credit rating of the security issuers deteriorates or does not meet our investment criteria, we may be required to adjust the carrying value of these investments through an impairment charge or dispose of these securities, possibly at a loss. Excluding ARSs, at February 29, 2008, we had approximately $236 million in cash, cash equivalents and short-term investments. We currently believe that our existing liquidity sources, including our bank line of credit facility, will satisfy our requirements for at least the next twelve months, including the final settlement and payment of C-Cube's pre-merger liabilities and our expectation that we will pay $6.4 million to settle the outstanding securities litigation. However, we may need to raise additional funds if our expectations or estimates change or prove inaccurate, or to take advantage of unanticipated opportunities or to strengthen our financial position.

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 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 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 increased market uncertainty surrounding the ongoing U.S. war on terrorism, as well as conditions in capital markets and the cable and satellite industries. There can be no assurance that any financing will be available on terms acceptable to us, if at all.

Off-Balance Sheet Arrangements

None as of December 31, 2007.

Contractual Obligations and Commitments

Future payments under contractual obligations, and other commercial commitments, as of December 31, 2007, were as follows:

		Payments Due by Period			
	Total Amounts Committed	1 year or less	2 – 3 years	4 – 5 years	Over 5 years
			(In thousands)		
Contractual Obligations:					
Operating Leases(1)	$ 38,357	$ 13,844	$ 24,471	$ 42	$ —
Inventory Purchase Commitment	24,857	24,857	—	—	—
C-Cube Pre-Merger Tax Liabilities	6,657	6,657	—	—	—
Rhozet outstanding purchase consideration	5,092	2,769	2,323	—	—
Class action lawsuit settlement	6,400	6,400	—	—	—
Foreign currency forward exchange contracts	8,476	8,476	—	—	—
Total Contractual Obligations	$ 89,839	$ 63,003	$ 26,794	$ 42	$ —

		Amount of Commitment Expiration Per Period			
	Total Amounts Committed	1 year or less	2 – 3 years	4 – 5 years	Over 5 years
			(In thousands)		
Other Commercial Commitments:					
Standby Letters of Credit	$ 278	$ 278	$ —	$ —	$ —
Indemnifications(2)	—	—	—	—	—
Guarantees	—	—	—	—	—
Total Commercial Commitments	$ 278	$ 278	$ —	$ —	$ —

1. Operating lease commitments include $19.7 million of accrued excess facilities costs.

2. Harmonic indemnifies some of its suppliers and customers for specified intellectual property rights pursuant to certain parameters and restrictions. The scope of these indemnities varies, but in some instances, includes indemnification for damages and expenses (including reasonable attorneys' fees). There have been no claims for indemnification and, accordingly, no amounts have been accrued in respect of the indemnification provisions at December 31, 2007.

Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2007, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, $8.9 million of unrecognized tax benefits classified as "Income tax payable long-term" in the accompanying consolidated balance sheet as of December 31, 2007, have been excluded from the contractual obligations table above. See Note 13 "Income Taxes" to our consolidated financial statements for a discussion on income taxes.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards 157, "Fair Value Measurements" ("SFAS 157"). This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We have not determined the effect, if any, the adoption of this statement in the first quarter of 2008 will have on our consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by Harmonic in the first quarter of fiscal 2008. Harmonic currently is determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its consolidated results of operations or financial condition.

In June 2007, the FASB also ratified Emerging Issues Task Force ("EITF") Issue 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. We are currently evaluating the effect that the adoption of EITF 07-3 will have on our consolidated results of operations and financial condition.

Harmonic adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109" ("FIN 48") on January 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. See Note 13 "Income Taxes" for additional information, including the effects of adoption on the Company's consolidated financial statements.

In June 2007, the FASB also ratified EITF Issue 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. We are currently evaluating the effect that the adoption of EITF 07-3 in the first quarter of fiscal 2008 will have on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141(R) on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin 51” (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated results of operations and financial condition.

Item 7A. 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 and foreign currency exchange rates as measured against the U.S. Dollar and currencies of Harmonic’s subsidiaries.

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 7% of net sales in 2007 and 11% of net sales in 2006. Periodically, Harmonic enters into foreign currency forward exchange contracts (“forward contracts”) to manage exposure related to accounts receivable denominated in foreign currencies. Harmonic does not enter into derivative financial instruments for trading purposes. At December 31, 2007, we had a forward exchange contract to sell Euros totaling $8.5 million that matures within the first quarter of 2008. 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 assure you 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 relate primarily to Harmonic’s investment portfolio of marketable debt securities of various issuers, types and maturities and to Harmonic’s borrowings under its bank line of credit facility. 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 material unrealized gains and losses reported in other comprehensive income. There is risk that losses could be incurred if Harmonic were to sell any of its securities prior to stated maturity. As of December 31, 2007, our cash, cash equivalents and investments balance was $269.3 million. Based on our estimates, a 100 basis points, or 1%, change in interest rates would have increased or decreased the fair value of our investments by approximately $0.7 million.

AUCTION RATE SECURITIES

Harmonic’s cash and investment balances at December 31, 2007 were $269.3 million. As of December 31, 2007, Harmonic held approximately $34.2 million of auction rate securities, or ARSs. As of February 29, 2008, we have $31.2 million invested in ARSs which are invested in municipal government obligations and preferred securities in closed-end mutual funds, and all have a credit rating of AA+ or better. Through February 29, 2008, auctions for approximately $31.2 million of these securities were not successful, resulting in our continuing to hold these securities and issuers paying interest at a maximum contractual rate. Based on current market conditions, it is likely that future auctions related to these securities will be unsuccessful in the near term. Unsuccessful auctions will result in our holding these securities beyond their next scheduled auction reset dates and limiting the short-term liquidity of these investments. While these failures in the auction process have affected our ability to access these funds in the near term, we do not believe that the underlying securities or collateral have been affected. If the credit rating of the security issuers deteriorates or does not meet our investment criteria, we may be required to adjust the carrying value of these investments through an impairment charge or dispose of these securities, possibly at a loss.

Item 8. Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d-15(f)of the Exchange Act. Our internal control over financial reporting is a process 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. Our internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Our management assessed the effectiveness of Harmonic's internal control over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on our assessment using those criteria, we concluded that as of December 31, 2007, Harmonic's internal control over financial reporting was effective.

(a) Index to Consolidated Financial Statements

(b) Financial Statement Schedules:

1. Financial statement schedules have been omitted because the information is not required to be set forth herein, is not applicable or is included in the financial statements or notes thereto.

2. Selected Quarterly Financial Data: The following table sets forth for the period indicated selected quarterly financial data for the Company.

Quarterly Data (Unaudited)

	2007				2006			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(In thousands, except per share data)							
Quarterly Data:								
Net sales	$87,390	$82,295	$71,282	$ 70,236	$75,338	$62,856	$ 53,270	$56,221
Gross profit	40,715	35,643	30,565	27,152	30,164	29,797	21,606	19,880
Income (loss) from operations	4,936	8,871	5,078	374	3,351	2,800	(4,001)	(5,872)
Net income (loss)	6,639	9,417	6,249	1,116	5,041	4,016	(2,903)	(5,147)
Basic net income (loss) per share	0.08	0.12	0.08	0.01	0.07	0.05	(0.04)	(0.07)
Diluted net income (loss) per share	0.07	0.12	0.08	0.01	0.07	0.05	(0.04)	(0.07)

1. The selling, general and administrative expenses in the fourth quarter of fiscal year 2007 included a provision of approximately $6.4 million for an estimated litigation settlement expense.

2. The Company recorded a charge of $2.1 million in the third quarter of 2006 due to the completion of our Sunnyvale facilities rationalization plan and recorded a credit of $1.8 million in the third quarter of 2007 as a result of a revised estimate of expected sublease income.

3. The Company recorded a charge of approximately $1 million in the second quarter of 2006 from the reorganization of our senior management.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Harmonic Inc.:

In our opinion, the accompanying Consolidated Balance Sheets and the related Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows listed in the index appearing under Item 8 (a) present fairly, in all material respects, the financial position of Harmonic Inc. and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes 1 and 12 to the Consolidated Financial Statements, effective January 1, 2006, the Company changed the manner in which it accounts for stock-based compensation.

As discussed in Note 13 to the Consolidated Financial Statements, effective January 1, 2007, the Company changed its method of accounting for uncertain tax positions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

San Jose, California

March 17, 2008

HARMONIC INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
	(In thousands, except par value amounts)	
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
Goodwill	45,793	37,141
Intangibles, net	17,844	16,634
Other assets	4,252	1,403
Total assets	$ 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, long-term	9,907	16,434
Income taxes payable, long-term	8,908	—
Deferred income taxes, long-term	3,454	—
Other non-current liabilities	8,565	5,824
Total liabilities	141,366	136,828
Commitments and contingencies (Notes 17, 18 and 19)		
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; 93,772 and 78,386 shares issued and outstanding	94	78
Capital in excess of par value	2,246,875	2,078,863
Accumulated deficit	(1,912,386)	(1,933,708)
Accumulated other comprehensive loss	(170)	(99)
Total stockholders' equity	334,413	145,134
Total liabilities and stockholders' equity	$ 475,779	$ 281,962

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

HARMONIC INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands, except per share data)		
Net sales	$ 311,204	$ 247,684	$ 257,378
Cost of sales	177,129	146,238	163,430
Gross profit	134,075	101,446	93,948
Operating expenses:			
Research and development	42,902	39,455	38,168
Selling, general and administrative	70,690	65,243	61,475
Write-off of acquired in-process technology	700	—	—
Amortization of intangibles	525	470	1,349
Total operating expenses	114,817	105,168	100,992
Income (loss) from operations	19,258	(3,722)	(7,044)
Interest income, net	6,117	4,616	2,665
Other income (expense), net	146	722	(915)
Income (loss) before income taxes	25,521	1,616	(5,294)
Provision for income taxes	2,100	609	437
Net income (loss)	$ 23,421	$ 1,007	$ (5,731)
Net income (loss) per share:			
Basic	$ 0.29	$ 0.01	$ (0.08)
Diluted	$ 0.28	$ 0.01	$ (0.08)
Weighted average shares:			
Basic	81,882	74,639	73,279
Diluted	83,249	75,183	73,279

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

HARMONIC INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity	Comprehensive Income (Loss)
			(In thousands)				
Balance at December 31, 2004	72,286	$ 72	$ 2,039,738	$ (1,928,984)	$ (269)	$ 110,557	
Net loss		—	—	(5,731)	—	(5,731)	$ (5,731)
Unrealized gain on investments, net of tax		—	—	—	7	7	7
Currency translation		—	—	—	(205)	(205)	(205)
Comprehensive loss							$ (5,929)
Stock-based compensation		—	35	—	—	35	
Issuance of Common Stock under option and purchase plans	1,181	2	6,486	—	—	6,488	
Issuance of Common Stock for acquisition of BTL	169	—	1,831	—	—	1,831	
Balance at December 31, 2005	73,636	74	2,048,090	(1,934,715)	(467)	112,982	
Net income		—	—	1,007	—	1,007	$ 1,007
Unrealized gain on investments, net of tax		—	—	—	205	205	205
Currency translation		—	—	—	163	163	163
Comprehensive income		—	—	—	—	—	$ 1,375
Stock-based compensation		—	5,753	—	—	5,753	
Issuance of Common Stock under option and purchase plans	1,170	1	4,777	—	—	4,778	
Issuance of Common Stock for acquisition of Entone	3,580	3	20,243	—	—	20,246	
Balance at December 31, 2006	78,386	78	2,078,863	(1,933,708)	(99)	145,134	
Adjustment due to adoption of FIN 48		—	—	(2,099)	—	(2,099)	
Net income		—	—	23,421	—	23,421	$ 23,421
Unrealized loss on investments, net of tax		—	—	—	(27)	(27)	(27)
Currency translation		—	—	—	(44)	(44)	(44)
Comprehensive income		—	—	—	—	—	$ 23,350
Stock-based compensation		—	6,196	—	—	6,196	
Issuance of Common Stock under option and purchase plans	1,981	2	11,492	—	—	11,494	
Tax benefits from employee stock option plans		—	70	—	—	70	
Issuance of Common Stock for acquisition of Rhozet	905	1	8,423	—	—	8,424	
Issuance of Common Stock in public offering, net	12,500	13	141,831	—	—	141,844	
Balance at December 31, 2007	93,772	$ 94	$ 2,246,875	$ (1,912,386)	$ (170)	$ 334,413	

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

HARMONIC INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 23,421	$ 1,007	$ (5,731)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization and impairment of intangibles	5,338	2,200	2,603
Write-off of acquired in-process technology	700	—	—
Depreciation and amortization	6,661	7,383	8,676
Stock-based compensation	6,196	5,722	35
Impairment and loss on disposal of fixed assets	74	297	114
Deferred income taxes	—	—	(366)
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(4,191)	(20,550)	21,804
Inventories	7,865	(3,224)	4,581
Prepaid expenses and other assets	(6,354)	(4,316)	1,182
Accounts payable	(13,129)	13,396	(3,347)
Deferred revenue	10,205	7,774	5,234
Income taxes payable	208	493	(624)
Accrued excess facilities costs	(6,684)	(877)	(5,846)
Accrued and other liabilities	5,050	(671)	(12,261)
Net cash provided by operating activities	35,360	8,634	16,054
Cash flows used in investing activities:			
Purchases of investments	(178,123)	(70,398)	(63,328)
Proceeds from sales of investments	98,300	84,820	64,334
Acquisition of property and equipment	(5,868)	(5,143)	(5,666)
Acquisition of Rhozet, net of cash received	(1,950)	—	—
Purchase of Entone, Inc. convertible note	(2,500)	—	—
Acquisition of Entone Technologies, Inc., net of cash received	(2,465)	(26,232)	—
Acquisition of BTL, net of cash received	—	—	(5,661)
Net cash used in investing activities	(92,606)	(16,953)	(10,321)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	153,337	4,778	6,478
Excess tax benefits from stock-based compensation	70	—	—
Repayments under bank line and term loan	(460)	(812)	(1,067)
Repayments of capital lease obligations	(72)	(82)	(92)
Net cash provided by financing activities	152,875	3,884	5,319
Effect of exchange rate changes on cash and cash equivalents	(78)	71	163
Net increase (decrease) in cash and cash equivalents	95,551	(4,364)	11,215
Cash and cash equivalents at beginning of period	33,454	37,818	26,603
Cash and cash equivalents at end of period	$ 129,005	$ 33,454	$ 37,818
Supplemental disclosure of cash flow information:			
Income tax payments (refunds), net	$ 1,716	$ (75)	$ 355
Interest paid during the period	$ 67	$ 108	$ 153
Non-cash investing and financing activities:			
Issuance of restricted common stock from Rhozet acquisition	$ 8,424	$ —	$ —
Issuance of restricted common stock and options from Entone acquisition	$ —	$ 20,382	$ —
Issuance of restricted common stock from BTL acquisition	$ —	$ —	$ 1,831

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

Harmonic Inc.

Notes to Consolidated Financial Statements

NOTE 1: ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Harmonic Inc. ("Harmonic") designs, manufactures and sell products and systems that enable network operators to efficiently deliver broadcast and on-demand video services that include digital video, video-on-demand and high definition television, as well as high-speed Internet access and telephony. Historically, most of our revenues have been derived from sales of video processing solutions and edge and access systems to cable television operators. We also provide our video processing solutions to direct broadcast satellite operators and to telephone companies, or telcos, which offer video services to their customers.

Basis of Presentation. The consolidated financial statements of Harmonic include the financial statements of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated. Harmonic's fiscal quarters end on the Friday nearest the calendar quarter end, except for the fourth quarter which ends on December 31.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents. Cash equivalents are comprised of highly liquid investment-grade investments with original maturities of three months or less at the date of purchase. Cash equivalents are stated at amounts that approximate fair value, based on quoted market prices.

Investments. Harmonic's short-term investments are stated at fair value, and are principally comprised of U.S. government, U.S. government agencies and corporate debt securities. The Company classifies its investments as available for sale in accordance with Statement of Financial Accounting Standards ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities," and states its investments at estimated fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss). The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in interest income, net. Investments are anticipated to be used for current operations and are, therefore, classified as current assets, even though maturities may extend beyond one year. The Company monitors its investment portfolio for impairment on a periodic basis. In the event a decline in value is determined to be other than temporary an impairment charge is recorded.

Fair Value of Financial Instruments. The carrying value of Harmonic's financial instruments, including cash, cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities.

Concentrations of Credit Risk/Major Customers/Supplier Concentration. Financial instruments which subject Harmonic to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and accounts receivable. Cash, cash equivalents and short-term investments are invested in short-term, highly liquid investment-grade obligations of commercial or governmental issuers, in accordance with Harmonic's investment policy. The investment policy limits the amount of credit exposure to any one financial institution, commercial or governmental issuer. Harmonic's accounts receivable are derived from sales to cable, satellite, and other network operators and distributors. Harmonic generally does not require collateral and performs ongoing credit evaluations of its customers and provides for expected losses. Harmonic maintains an allowance for doubtful accounts based upon the expected collectibility of its accounts receivable. Two customers had a balance of 19% and 14% of our net accounts receivable as of December 31, 2007. One customer had a balance of 23% of our net accounts receivable as of December 31, 2006.

Certain of the components and subassemblies included in the Company's products are obtained from a single source or a limited group of suppliers. Although the Company seeks to reduce dependence on those sole source and limited source suppliers, the partial or complete loss of certain of these sources could have at least a temporary adverse effect on the Company's results of operations and damage customer relationships.

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, collectibility is reasonably assured, and risk of loss and title have transferred to the customer.

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

Solution sales for the design, manufacture, test, integration and installation of products to the specifications of Harmonic's customers, including equipment acquired from third parties to be integrated with Harmonic's products, that is customized to meet the customer's specifications are accounted for in accordance with SOP 81-1, "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 for each arrangement to determine whether the arrangement should be accounted for as a single arrangement under SOP 81-1, or alternatively, for arrangements that do not involve significant production, modification or customization, under other 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 significant part of the operations of the Company. At the outset of each arrangement accounted for under SOP 81-1, the Company develops a detailed project plan and associated labor hour estimates for each project. The Company believes that, based on its historical experience, is has the ability to make labor hour 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 within the scope of SOP 81-1. 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 labor hours expended to date to anticipated final labor hours, based on current estimates of labor hours to complete the project. If the estimated costs to complete a project exceed the total contract amount, indicating a loss, the entire anticipated loss is recognized.

When arrangements contain multiple elements, Harmonic evaluates all deliverables in the arrangement at the outset of the arrangement based on the guidance in Emerging Issues Task Force (EITF) 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." If the undelivered elements qualify as separate units of accounting based on the criteria in EITF 00-21, which include that the delivered elements have value to the customer on a stand-alone basis and that objective and reliable evidence of fair value exists for undelivered elements, Harmonic allocates the arrangement fee based on the relative fair value of the elements of the arrangement. If a delivered element does not meet the criteria in EITF 00-21 to be considered a separate unit of accounting, revenue is deferred until the undelivered elements are fulfilled. We establish fair value by reference to the price the customer is required to pay when an item is sold separately using contractually stated, substantive renewal rates, where applicable, or the average price of recently completed stand alone sales transactions. Accordingly, the determination as to whether appropriate objective and reliable evidence of fair value exists can impact the timing of revenue recognition for an arrangement.

For multiple element arrangements that include both hardware products and software products, Harmonic evaluates the arrangement based on EITF 03-5, "Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software." In accordance with the provisions of EITF 03-5, the arrangement is divided between software-related elements and non-software deliverables. Software-related elements are accounted for as software. Software-related elements include all non-software deliverables for which a software deliverable is essential to its functionality. When software arrangements contain multiple elements and vendor specific objective evidence (VSOE) of fair value exists for all undelivered elements, Harmonic accounts for the delivered elements in accordance with the "Residual Method" prescribed by SOP 98-9. In arrangements where VSOE of fair value is not available for all undelivered elements, we defer the recognition of all revenue under an arrangement until all elements have been delivered. Fair value of software-related elements is based on separate sales to other customers or upon renewal rates quoted in contracts when the quoted renewal rates are deemed to be substantive.

Revenue from maintenance agreements is generally recognized ratably as the services are performed or based on contractual terms. The costs associated with services are recognized as incurred. Maintenance services are recognized ratably over the maintenance term, which is typically one year. The unrecognized revenue portion of maintenance agreements billed is recorded as deferred revenue.

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

Revenue from distributors and system integrators is recognized on delivery provided that the criteria for revenue recognition have been met. Our agreements with these distributors and system integrators have terms which are generally consistent with the standard terms and conditions for the sale of our 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. Shipping and handling costs incurred for inventory purchases and product shipments are recorded in "Cost of sales" in the Company's Consolidated Statements of Operations.

Inventories. Inventories are stated at the lower of cost, using the weighted average method, or market. Harmonic establishes provisions for excess and obsolete inventories after evaluation of historical sales and future demand and market conditions, expected product lifecycles and current inventory levels to reduce such inventories to their estimated net realizable value. Such provisions are charged to cost of sales in the Company's Consolidated Statements of Operations.

Capitalized Software Development Costs. Costs related to research and development are generally charged to expense as incurred. Capitalization of material software development costs begins when a product's technological feasibility has been established in accordance with the provisions of SFAS 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." To date, the time period between achieving technological feasibility, which the Company has defined as the establishment of a working model, which typically occurs when beta testing commences, and the general availability of such software, has been short, and as such, software development costs qualifying for capitalization have been insignificant.

Property and Equipment. Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 5 years for furniture and fixtures, and up to 4 years for machinery and equipment. Depreciation and amortization for leasehold improvements are computed using the shorter of the remaining useful lives of the assets up to 10 years or the lease term of the respective assets. Depreciation and amortization expense related to equipment and improvements for the years ended December 31, 2007, 2006 and 2005 were $6.7 million, $7.4 million and $8.7 million, respectively.

Goodwill and Intangible Assets. Intangible assets represent purchased intangible assets and the excess of acquisition cost over the fair value of tangible and identified intangible net assets of businesses acquired, or goodwill. Purchased intangible assets include customer base, maintenance agreements, developed technology, trademark and tradename, and supply agreements. See Note 4, "Goodwill and Identified Intangibles".

Impairment of Long-Lived Assets. Long-lived assets, such as other intangibles and property and equipment, are evaluated for recoverability when indicators of impairment are present. The Company evaluates the recoverability of other intangible assets and long-lived assets on the basis of undiscounted cash flows for each asset group. If impairment is indicated, provisions for impairment are determined based on the fair value, using discounted cash flows.

Restructuring Costs and Accruals for Excess Facilities. For restructuring activities initiated prior to December 31, 2002 Harmonic recorded restructuring costs when the Company committed to an exit plan and significant changes to the exit plan were not likely. Harmonic determines the excess facilities accrual based on estimates of expected sublease rental income for each excess facility. For restructuring activities initiated after December 31, 2002, the Company adopted SFAS 146, “Accounting for Costs Associated with Exit or Disposal Activities,” which requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred.

Accrued warranties. The Company accrues for estimated warranty at the time of revenue recognition and records such accrued liabilities as part of “Cost of sales”. Management periodically reviews the estimated fair value of its warranty liability and adjusts 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.

Currency Translation. The functional currency of the Company’s Israeli operations is the U.S. dollar. All other foreign subsidiaries use the respective local currency as the functional currency. When the local currency is the functional currency, gains and losses from translation of these foreign currency financial statements into U.S. dollars are recorded as a separate component of other comprehensive income (loss) in stockholders’ equity. For subsidiaries where the functional currency is the U.S. dollar, gains and losses resulting from re-measuring foreign currency denominated balances into U.S. dollars are included in other income (expense), net and have been insignificant for all periods presented. Foreign currency transactions gains and losses derived from monetary assets and liabilities being stated in a currency other than the functional currency are recorded to other income (expense) in the Company’s Consolidated Statements of Operations.

Income Taxes. The Company’s income tax policy is to record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in its accompanying combined balance sheets, as well as operating loss and tax credit carryforwards. The Company follows the guidelines set forth in SFAS 109, “Accounting for Income Taxes,” or SFAS 109, regarding the recoverability of any tax assets recorded on the balance sheet and provides any necessary allowances as required. Determining necessary allowances requires Harmonic to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities. As of December 31, 2007, Harmonic had a $112.3 million valuation allowance recorded as an offset against certain of our net deferred tax assets. If we were to release the entire $112.3 million valuation allowance it would result in a credit to goodwill of $5.2 million and a credit to additional paid-in capital within stockholder’s equity of $1.5 million. In accordance with SFAS 109, the Company has evaluated its need for a valuation allowance based on historical evidence, trends in profitability and expectations of future taxable income.

Advertising Expenses. Harmonic expenses the cost of advertising as incurred. During 2007, 2006 and 2005, advertising expenses were not material to the results of operations.

Stock Based Compensation. On January 1, 2006, the Company adopted SFAS 123(R), “Share-Based Payment,” (“SFAS 123(R)”) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases related to our Employee Stock Purchase Plan (“ESPP”) based upon the grant-date fair value of those awards. SFAS 123(R) supersedes the Company’s previous accounting under Accounting Principles Board Opinion 25, “Accounting for Stock Issued to Employees” (“APB 25”) and related interpretations, and provided the required pro forma disclosures prescribed by SFAS 123, “Accounting for Stock-Based Compensation,” (“SFAS 123”) as amended. In addition, we have applied the provisions of Staff Accounting Bulletin 107 (“SAB 107”), issued by the Securities and Exchange Commission, in our adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified-prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's Consolidated Financial Statements as of and for the years ended December 31, 2007 and 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the years ended December 31, 2007 and 2006 was $6.2 million and $5.7 million, respectively, which consisted of stock-based compensation expense related to employee equity awards and employee stock purchases. There was no stock-based compensation expense related to employee equity awards and employee stock purchases recognized during the year ended December 31, 2005.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for employee equity awards and employee stock purchases using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Consolidated Statement of Operations because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statement of Operations for the years ended December 31, 2007 and 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock-based compensation costs to expense from the accelerated multiple-option method to the straight-line single-option method. Compensation expense for all share-based payment awards granted on or prior to December 31, 2005 will continue to be recognized using the accelerated approach while compensation expense for all share-based payment awards related to stock options and employee stock purchase rights granted subsequent to December 31, 2005 are recognized using the straight-line method.

As stock-based compensation expense recognized in our results for the years ended December 31, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to fiscal year 2006, we accounted for forfeitures as they occurred for the purposes of pro forma information under SFAS 123.

The fair value of share-based payment awards is estimated at grant date using a Black-Scholes-Merton option pricing model. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as the assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

Comprehensive Income (Loss). Comprehensive income (loss) includes net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes cumulative translation adjustments and unrealized gains and losses on available-for-sale securities.

Total comprehensive income (loss) of fiscal years 2007, 2006 and 2005 are presented in the accompanying Consolidated Statement of Stockholders' Equity. Total accumulated other comprehensive income (loss) is displayed as a separate component of stockholders' equity in the accompanying Consolidated Balance Sheets. The accumulated balances for each component of other comprehensive income (loss) consist of the following, net of taxes:

	Unrealized Gain (Loss) in Available-for-Sale Securities	Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance as of December 31, 2004	$ (226)	$ (43)	$ (269)
Change during year	7	(205)	(198)
Balance as of December 31, 2005	(219)	(248)	(467)
Change during year	205	163	368
Balance as of December 31, 2006	(14)	(85)	(99)
Change during year	(27)	(44)	(71)
Balance as of December 31, 2007	$ (41)	$ (129)	$ (170)

Accounting for Derivatives and Hedging Activities. Harmonic accounts for derivative financial instruments and hedging contracts in accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" which require that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive income, depending on the type of hedging relationship that exists.

Periodically, Harmonic enters into foreign currency forward exchange contracts ("forward exchange contracts") to manage exposure related to accounts receivable denominated in foreign currencies. The Company does not enter into derivative financial instruments for trading purposes. At December 31, 2007, the Company had a forward exchange contract to sell Euros totaling $8.5 million. This foreign exchange contract matured in the first quarter of 2008. At December 31, 2006, the Company had a forward exchange contract to sell Euros totaling $9.3 million. This foreign exchange contract matured within the first quarter of 2007.

Reclassification. Certain amounts in prior years' financial statements and related notes have been reclassified to conform to the 2007 presentation. These reclassifications have no material impact on previously reported net income (loss) or cash flows.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards 157, "Fair Value Measurements" (SFAS 157). This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We have not determined the effect, if any, the adoption of this statement in the first quarter of fiscal 2008 will have on our consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by Harmonic in the first quarter of fiscal 2008. Harmonic currently is determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its consolidated results of operations or financial condition.

The Company adopted FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109" ("FIN 48") on January 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. See Note 13 "Income Taxes" for additional information, including the effects of adoption on the Company's consolidated financial statements.

In June 2007, the FASB also ratified Emerging Issues Task Force ("EITF") Issue 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. We are currently evaluating the effect that the adoption of EITF 07-3 in the first quarter of fiscal 2008 will have on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141(R) on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated results of operations and financial condition.

NOTE 3: ACQUISITIONS

Rhozet Corporation

On July 31, 2007, Harmonic completed its acquisition of Rhozet Corporation, a privately held company based in Santa Clara, California. Rhozet develops and markets software-based transcoding solutions that facilitate the creation of multi-format video for internet, mobile and broadcast applications. With Rhozet's products, and sometimes in conjunction with other Harmonic products, Harmonic's existing broadcast, cable, satellite and telco customers can deliver traditional video programming over the Internet and to mobile devices, as well as expand the types of content delivered via their traditional networks to encompass web-based and user-generated content. Harmonic also believes that the acquisition opens up new customer opportunities for Harmonic with Rhozet's customer base of broadcast content creators and online video service providers and is complementary to Harmonic's video-on demand networking software business acquired in December 2006 from Entone Technologies. These opportunities were significant factors to the establishment of the purchase price, which exceeded the fair value of Rhozet's net tangible and intangible assets acquired resulting in the amount of goodwill we have recorded with this transaction. Management has made an allocation of the estimated purchase price to the tangible and intangible assets acquired and liabilities assumed.

The purchase price of $16.2 million included $15.5 million of total merger consideration and $0.7 million of transaction expenses. Under the terms of the merger agreement, Harmonic paid or will pay an aggregate of approximately $15.5 million in total merger consideration, comprised of approximately $2.5 million in cash, approximately $10.3 million of common stock issued and to be issued, consisting of approximately 1.1 million shares of Harmonic's common stock, in exchange for all of the outstanding shares of capital stock of Rhozet, approximately $2.8 million of cash which will be paid, at such time as provided in the merger agreement, to the holders of outstanding options to acquire Rhozet common stock. Pursuant to the merger agreement, approximately $2.3 million of the total merger consideration, consisting of cash and shares of Harmonic common stock, are being held back by Harmonic for at least 18 months following the closing of the acquisition to satisfy certain indemnification obligations of Rhozet's shareholders. As December 31, 2007, $3.3 million in transaction expenses, cash consideration payable to Rhozet shareholders and cash consideration payable to holders of Rhozet stock options remains unpaid and has been recorded in either accounts payable or current liabilities. In addition, as of December 31, 2007, approximately $1.9 million of purchase consideration, which based on the terms of the merger agreement will be settled through the issuance of approximately 0.2 million shares of Harmonic's common stock, has been recorded as a non-current liability.

The Rhozet acquisition was accounted for under SFAS 141 and certain specified provisions of SFAS 142. The results of operations of Rhozet are included in Harmonic's Consolidated Statements of Operations from July 31, 2007, the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of the tangible assets acquired and the liabilities assumed at the date of acquisition:

	(In thousands)
Cash acquired	$ 657
Accounts receivable	457
Fixed assets	133
Other tangible assets acquired	59
Intangible assets:	
IP technology	169
Software license	80
Existing technology	4,000
In-process technology	700
Core technology	1,100
Customer contracts	300
Maintenance agreements	600
Tradenames/trademarks	300
Goodwill	8,980
Total assets acquired	17,535
Deferred revenue	(174)
Other accrued liabilities	(1,165)
Net assets acquired	$ 16,196

The purchase price was allocated as set forth in the table above. The "Income Approach" which includes an analysis of the markets, cash flows and risks associated with achieving such cash flows, was the primary method used in valuing the identified intangibles acquired. The Discounted Cash Flow method was used to estimate the fair value of the acquired existing technology, in-process technology, maintenance agreements and customer contracts. The Royalty Savings Method was used to estimate the fair value of the acquired core technology and trademarks/trade names. In the Royalty Savings Method, the value of an asset is estimated by capitalizing the royalties saved because the Company owns the asset. Expected cash flows were discounted at the Company's weighted average cost of capital of

18%. Identified intangible assets, including existing technology and core technology are being amortized over their useful lives of four years; trade name/trademarks are being amortized over their useful lives of five years; customer contracts are being amortized over its useful life of six years and maintenance agreements are being amortized over its useful life of seven years. In-process technology was written off due to the risk that the developments will not be completed or competitive with comparable products. Existing technology is being amortized using the double declining method which reflects the future projected cash flows. The core technology, customer contracts, maintenance agreements and trade name/trademarks are being amortized using the straight-line method.

The residual purchase price of $9.0 million has been recorded as goodwill. The goodwill as a result of this acquisition is not expected to be deductible for tax purposes. In accordance with SFAS 142, “Goodwill and Other Intangible Assets,” goodwill relating to the acquisition of Rhozet is not being amortized and will be tested for impairment annually or whenever events indicate that an impairment may have occurred.

Entone Technologies, Inc.

On December 8, 2006, Harmonic acquired Entone Technologies, Inc., or Entone, pursuant to the terms of an Agreement and Plan of Merger (the “Merger Agreement”) dated August 21, 2006. Under the terms of the merger agreement, Entone spun off its consumer premise equipment business, or CPE business, to Entone’s existing stockholders prior to closing. Entone then merged into Harmonic, and Harmonic acquired Entone’s VOD business, which includes the development, sale and support of head-end equipment (software and hardware) and associated services for the creation, distribution and delivery of on-demand television programming to operators who offer such programming to businesses and consumers. Harmonic believes Entone’s software solution, which facilitates the provisioning of personalized video services including video-on-demand, network personal video recording, time-shifted television and targeted advertisement insertion, will enable Harmonic to expand the scope of solutions we can offer to cable, satellite and telco/IPTV service providers in order to provide an advanced and uniquely integrated delivery system for the next generation of both broadcast and personalized IP-delivered video services. These opportunities, along with the established Asian-based software development workforce, were significant factors to the establishment of the purchase price, which exceeded the fair value of Entone’s net tangible and intangible assets acquired resulting in the amount of goodwill we have recorded with this transaction. Management has made an allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed based on various estimates.

The purchase price of $48.9 million included $26.2 million in cash, $20.1 million of stock issued, consisting of 3,579,715 shares of Harmonic common stock, $0.2 million in stock options assumed, and $2.5 million of transaction expenses incurred. Stock options to purchase Harmonic common stock totaling approximately 0.2 million shares were issued to reflect the conversion of all outstanding Entone options for continuing employees. The fair value of Harmonic’s stock options issued to Entone employees were valued at $925,000 using the Black-Scholes options pricing model of which $697,000 represents unearned stock-based compensation, which will be recorded as compensation expense as services are provided by optionholders, and $228,000 was recorded as purchase consideration. As part of the terms of the Merger Agreement, Harmonic was obligated to purchase a convertible note with a face amount of $2.5 million in the new spun off private company subject to closing of an initial round of equity financing in which at least $4 million is invested by third parties. This amount was funded in July 2007. See Note 16.

The Entone acquisition was accounted for under SFAS 141 and certain specified provisions of SFAS 142. The results of operations of Entone are included in Harmonic's Consolidated Statements of Operations from December 8, 2006, the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of the tangible assets acquired and the liabilities assumed at the date of acquisition:

	(In thousands)
Cash acquired	$ —
Accounts receivable	297
Inventory	184
Fixed assets	313
Other tangible assets acquired	22
Deferred tax assets	368
Amortizable intangible assets:	
Existing technology	11,600
Core technology	2,800
Customer relationships	1,700
Tradenames/trademarks	800
Goodwill	32,027
Total assets acquired	50,111
Accounts payable	(855)
Deferred revenue, net of deferred costs	(166)
Other accrued liabilities	(146)
Net assets acquired	$ 48,944

Identified intangible assets, including existing technology and core technology are being amortized over their useful lives of three to four years; tradename/trademarks are being amortized over their useful lives of five years; and customer relationships are being amortized over its useful life of six years.

The residual purchase price of $32.0 million has been recorded as goodwill. The goodwill as a result of this acquisition is not expected to be deductible for tax purposes. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," goodwill relating to the acquisition of Entone is not being amortized and will be tested for impairment annually or whenever events indicate that an impairment may have occurred.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information presented below summarizes the combined results of operations as if the acquisitions of Rhozet and Entone had been completed as of the beginning of the fiscal years presented. The unaudited pro forma financial information for the year ended December 31, 2006 combines the historical results for Harmonic for the year ended December 31, 2006, and the historical results of Rhozet for the year ended December 31, 2006, and the historical results of Entone for the respective period through December 8, 2006, the acquisition date. The unaudited pro forma financial information for the year ended December 31, 2007 combines the historical results of Harmonic for the year ended December 31, 2007 with the results of Rhozet for the period from January 1, 2007 through July 31, 2007, the acquisition date. 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 mergers actually been completed as of the beginning of the periods presented or of results which may occur in the future.

	Year Ended December 31, 2007	2006
	(In thousands, except per share data)	
Net sales	$ 312,527	$ 250,758
Net income (loss)	$ 20,311	$ (11,940)
Net income (loss) per share – basic	$ 0.25	$ (0.15)
Net income (loss) per share – diluted	$ 0.24	$ (0.15)

Broadcast Technology Limited

On February 25, 2005, Harmonic purchased all of the issued and outstanding shares of Broadcast Technology Limited, or BTL, a private UK company, for a purchase consideration of £4.0 million, or approximately $7.6 million. The purchase consideration consisted of a payment of £3.0 million in cash and the issuance of 169,112 shares of Harmonic common stock. In addition, Harmonic paid approximately $0.3 million in transaction costs for a total transaction price of approximately $7.9 million. The addition of BTL expanded Harmonic's product line to include professional video/audio receivers and decoders. This enabled us to expand the scope of solutions we provided for existing and emerging cable, satellite, terrestrial broadcast and telecom applications. These factors contributed to a purchase price exceeding the fair value of BTL's net tangible and intangible assets acquired; as a result, we recorded goodwill in connection with this transaction.

The BTL acquisition was accounted for under SFAS 141 and certain specified provisions of SFAS 142. The results of operations of BTL are included in Harmonic's Consolidated Statements of Operations from February 25, 2005, the date of acquisition. The following table summarizes the allocation of the purchase price based on the estimated fair value of the tangible assets acquired and the liabilities assumed at the date of acquisition:

	(In thousands)
Cash acquired	$ 149
Other tangible assets acquired	2,508
Amortizable intangible assets:	
Existing technology	2,050
Customer relationships	540
Tradenames/trademarks	320
Order backlog	60
Goodwill	3,745
Total assets acquired	9,372
Liabilities assumed	(568)
Deferred tax liability for acquired intangibles	(891)
Net assets acquired	$ 7,913

Identified intangible assets, including existing technology and customer relationships are being amortized over their useful lives of three years; tradename/trademarks are being amortized over their useful lives of two years; and order backlog is being amortized over its useful life of three months. A review of the intangibles associated with the BTL acquisition was performed in the fourth quarter of 2006 and it was determined that the remaining intangibles of $1.0 million were impaired.

The residual purchase price of $3.7 million has been recorded as goodwill and was originally allocated to the Convergent Systems reporting unit. Effective January 1, 2006, the Company's restructuring resulted in the operating divisions being combined and goodwill is evaluated at the Company level. The goodwill as a result of this acquisition is not expected to be deductible for tax purposes. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," goodwill relating to the acquisition of BTL is not being amortized and will be tested for impairment annually or whenever events indicate that an impairment may have occurred.

Supplemental pro forma information is not provided because the acquisition of BTL was not material to the Company's financial statements for all periods presented.

NOTE 4: GOODWILL AND IDENTIFIED INTANGIBLES

For purposes of applying SFAS 142, management believed the operating divisions, BAN and CS, represented the Company's reporting units prior to January 1, 2006. CS was the only reporting unit with goodwill and intangible assets. Effective January 1, 2006 the Company's restructuring resulted in the operating divisions being combined. As a result, management has determined that the Company operates as a single reporting unit and goodwill is evaluated at the Company level. The Company performed the annual impairment test of goodwill in the fourth quarter of 2005, 2006 and 2007. For the year 2005, the fair value of CS, which was based on the operation's future discounted cash flows, exceeded its carrying amount, including goodwill. For the years 2006 and 2007, in all instances, the fair value of Harmonic, which was based on the Company's future discounted cash flows, exceeded its carrying amount, including goodwill. As a result of these tests, goodwill was determined not to be impaired.

For the years ended December 31, 2007, 2006 and 2005, the Company recorded a total of $5.3 million, $1.2 million and $2.6 million, respectively, of amortization expense for identified intangibles, of which $4.7 million, $0.9 million and $1.3 million, respectively, was included in cost of sales. A review of the intangibles associated with the BTL acquisition was performed in 2006 and it was determined that the carrying value of intangibles of $1.0 million were impaired. In 2006, the impairment charge was recorded as $0.8 million to cost of sales and $0.2 million to operating expenses. The following is a summary of goodwill and intangible assets as of December 31, 2007 and December 31, 2006:

	December 31, 2007			December 31, 2006			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
				(In thousands)			
Identified intangibles:							
Developed core technology	$ 49,463	$ (34,941)	$ 14,522	$ 44,322	$ (29,334)	$ (826)	$ 14,162
Customer relationships/contracts	33,912	(32,234)	1,678	33,611	(31,929)	—	1,682
Trademark and tradename	5,337	(4,432)	905	5,031	(4,241)	—	790
Supply agreement	3,543	(3,543)	—	3,532	(3,314)	(218)	—
Maintenance agreements	600	(36)	564	—	—	—	—
Software license and intellectual property	249	(74)	175	—	—	—	—
Subtotal of identified intangibles	93,104	(75,260)	17,844	86,496	(68,818)	(1,044)	16,634
Goodwill	45,793	—	45,793	37,141	—	—	37,141
Total goodwill and other intangibles	$ 138,897	$ (75,260)	$ 63,637	$ 123,637	$ (68,818)	$ (1,044)	$ 53,775

The changes in the carrying amount of goodwill for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
	(In thousands)	
Balance as of January 1	$ 37,141	$ 4,896
Acquisition of Rhozet Corporation	8,980	—
Acquisition of Entone	—	32,412
Purchase price adjustments	(385)	(531)
Foreign currency translation adjustments	57	364
Balance as of December 31	$ 45,793	$ 37,141

The estimated future amortization expense for identified intangibles is:

	Cost of Sales	Operating Expenses	Total
		(In thousands)	
2008	$ 5,426	$ 765	$ 6,191
2009	5,133	688	5,821
2010	3,802	639	4,441
2011	161	629	790
2012	—	437	437
2013 and thereafter	—	164	164
Total	$ 14,522	$ 3,322	$ 17,844

NOTE 5: RESTRUCTURING, EXCESS FACILITIES AND INVENTORY PROVISIONS

During 2001, Harmonic recorded a charge for excess facilities costs of $21.8 million. During the second half of 2002, the Company changed its estimates related to accrued excess facilities with regard to the expected timing and amount of sublease income and recorded an additional excess facilities charge of $22.5 million, net of sublease income, to selling, general and administrative expenses.

In the fourth quarter of 2005 the excess facilities liability was decreased by $1.1 million due to subleasing a portion of an unoccupied building for the remainder of the lease.

During the third quarter of 2006, the Company recorded a charge in selling, general and administrative expenses for excess facilities of $3.9 million. This charge relates to two buildings which were vacated during the third quarter in connection with a plan to make more efficient use of our Sunnyvale campus in accordance with applicable provisions of FAS 146 “Accounting for Costs Associated with Exit or Disposal Activities.” In addition, during the third quarter of 2006 the Company revised its estimate of expected sublease income with respect to previously vacated facilities and recorded a credit of $1.7 million in accordance with applicable provisions of EITF 94-3 “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).”

During the first quarter of 2007, the Company recorded a charge in selling, general and administrative expenses for excess facilities of $0.4 million. This charge primarily relates to two buildings in the UK which were vacated in connection with the closure of the manufacturing and research and development activities of Broadcast Technology Limited, or BTL, in accordance with applicable provisions of FAS 146. In the fourth quarter of 2007, the Company recorded a charge in selling, general and administrative expenses of $0.1 million for the remaining building from the closure of BTL.

In the third quarter of 2007, the Company recorded a credit of $1.8 million from a revised estimate of expected sublease income due to the extension of a sublease of a Sunnyvale building to the lease expiration. In addition, in 2007 the Company recorded a restructuring charge of $0.4 million on a reduction in estimated sublease income for a Sunnyvale building.

As of December 31, 2007, accrued excess facilities cost totaled $16.0 million of which $6.1 million was included in current accrued liabilities and $9.9 million in other non-current liabilities. The Company incurred cash outlays of $6.3 million, net of $1.1 million of sublease income, during 2007 principally for lease payments, property taxes, insurance and other maintenance fees related to vacated facilities. As of December 31, 2006, accrued excess facilities cost totaled $22.7 million of which $6.3 million was included in current accrued liabilities and $16.4 million in other non-current liabilities. The Company incurred cash outlays of $5.2 million, net of $1.0 million of sublease income, during 2006 principally for lease payments, property taxes, insurance and other maintenance fees related to vacated facilities. In 2008, Harmonic expects to pay approximately $6.1 million of excess facility lease costs, net of estimated sublease income, and to pay the remaining $9.9 million, net of estimated sublease income, over the remaining lease terms through September 2010.

Harmonic reassesses this liability quarterly and adjust as necessary based on changes in the timing and amounts of expected sublease rental income. If facilities rental rates decrease in these markets or if it takes longer than expected to sublease these facilities, the maximum amount by which the actual loss could exceed the December 31, 2007 balance is approximately $1.5 million.

During the fourth quarter of 2005, in response to the consolidation of the Company's two operating segments into a single segment as of January 1, 2006, the Company implemented workforce reductions of approximately 40 full-time employees and recorded severance and other costs of approximately $1.1 million.

During the second quarter of 2006, the Company streamlined its senior management team primarily in the U.S. operations and recorded severance and other costs of approximately $1.0 million.

The following table summarizes restructuring activities:

	Workforce Reduction	Management Reduction	Excess Facilities	Campus Consolidation	BTL Closure	Total
			(In thousands)			
Balance at January 1, 2005	$ —	$ —	$ 29,421	$ —	$ —	$ 29,421
Provisions/	1,100	—	(1,118)	—	—	(18)
Cash payments, net of sublease income	(465)	—	(4,727)	—	—	(5,192)
Balance at December 31, 2005	635	—	23,576	—	—	24,211
Provisions/(recoveries)	(25)	962	(1,744)	3,918	—	3,111
Transfer of deferred rent liability	—	—	—	2,146	—	2,146
Cash payments, net of sublease income	(610)	(568)	(4,648)	(550)	—	(6,376)
Balance at December 31, 2006	—	394	17,184	5,514	—	23,092
Provisions/(recoveries)	—	(96)	(1,828)	1,019	1,103	198
Cash payments, net of sublease income	—	(298)	(4,206)	(2,040)	(733)	(7,277)
Balance at December 31, 2007	$ —	$ —	$ 11,150	$ 4,493	$ 370	$ 16,013

NOTE 6: CASH, CASH EQUIVALENTS AND INVESTMENTS

At December 31, 2007 and 2006, cash, cash equivalents and short-term investments are summarized as follows:

	December 31, 2007	December 31, 2006
	(In thousands)	
Cash and cash equivalents	$ 129,005	$ 33,454
Short-term investments:		
Less than one year	76,175	51,649
Due in 1-2 years	29,893	4,193
Due in 3-30 years	17,121	3,075
No maturity date	17,066	—
Total short-term investments	140,255	58,917
Total cash, cash equivalents and short-term investments	$ 269,260	$ 92,371

The following is a summary of available-for-sale securities (in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2007				
U.S. government debt securities	$ 15,886	$ 13	$ (12)	$ 15,887
Corporate debt securities	90,247	68	(134)	90,181
Auction rate securities	34,187	—	—	34,187
Total	$ 140,320	$ 81	$ (146)	$ 140,255
December 31, 2006				
U.S. government debt securities	$ 17,187	$ —	$ (36)	$ 17,151
Corporate debt securities	38,678	38	(25)	38,691
Auction rate securities	3,075	—	—	3,075
Total	$ 58,940	$ 38	$ (61)	$ 58,917

As of December 31, 2007, we had approximately $34.2 million of auction rate securities, or ARSs, classified as short-term investments and the fair value of these securities approximate cost at the balance sheet date. As of February 29, 2008 we have $31.2 million invested in ARSs which are invested in municipal government obligations and preferred securities in closed end funds, and all have a credit rating of AA+ or better. From January 1, 2008 through February 29, 2008, auctions for $31.2 million of these securities were not successful, resulting in our continuing to hold these securities and the issuers paying interest at the maximum contractual rate. Based on current market conditions, it is likely that future auctions related to these securities will be unsuccessful in the near term. Unsuccessful auctions will result in our holding these securities beyond their next scheduled auction reset dates and limiting the short-term liquidity of these investments. While these failures in the auction process have affected our ability to access these funds in the near term, we do not believe that the underlying securities or collateral have been affected. It is the Company's intent to realize the cash value of these securities during its normal operating cycle and accordingly the securities have been classified in short-term investments. While management believes that the Company will be able to liquidate our auction rate securities without significant loss, however, the timing to realize the investments' recorded value is uncertain. If the credit rating of the security issuers deteriorates or does not meet our investment criteria, the Company may be required to adjust the carrying value of these investments through an impairment charge or dispose of these securities, possibly at a loss. Excluding ARSs, at February 29, 2008, the Company had approximately $236 million in cash, cash equivalents and investments.

Impairment of Investments

We monitor our 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, we evaluate, among other factors: the duration and extent to which the fair value has been less than the carrying value; our financial condition and business outlook, including key operational and cash flow metrics, current market conditions and future trends in the company's industry; our relative competitive position within the industry; and our intent and ability to retain the investment for a period of time sufficient to allow any anticipated recovery in fair value.

In accordance with FASB Staff Position Nos. 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP FAS 115-1"), there are no available-for-sale securities that have been in a continuous unrealized loss position for more than 12 months and the amount of unrealized losses on any individual security and the total investment balance is insignificant as of December 31, 2007. The decline in the estimated fair value of these investments relative to amortized cost is primarily related to changes in interest rates and is considered to be temporary in nature.

NOTE 7: ACCOUNTS RECEIVABLE AND ALLOWANCES FOR DOUBTFUL ACCOUNTS, RETURNS, DISCOUNTS AND TRADE-INS

	2007	2006
	(In thousands)	
Accounts receivable	$ 77,496	$ 69,145
Less: allowance for doubtful accounts, returns and discounts	(8,194)	(4,471)
	$ 69,302	$ 64,674

Trade accounts receivable are recorded at invoiced amounts and do not bear interest. Harmonic generally does not require collateral and performs ongoing credit evaluations of its customers and provides for expected losses. Harmonic maintains an allowance for doubtful accounts based upon the expected collectibility of its accounts receivable. The expectation of collectibility is based on its review of credit profiles of customers' contractual terms and conditions, current economic trends and historical payment experience. Two customers had a balance of 19% and 14% of our net accounts receivable as of December 31, 2007. One customer had a balance of 23% of our net accounts receivable as of December 31, 2006.

The following is a summary of activities in allowances for doubtful accounts, returns and discounts for the periods indicated:

	Balance at Beginning of Period	Charges to Revenue	Charges/ (credits) to Expense	Deductions/ (Additions) from Reserves	Balance at End of Period
			(In thousands)		
2007	$ 4,471	$ 7,107	$ (125)	$ (3,259)	$ 8,194
2006	3,230	3,357	(138)	(1,978)	4,471
2005	5,126	3,077	—	(4,973)	3,230

NOTE 8: BALANCE SHEET DETAILS

	December 31, 2007	December 31, 2006
	(In thousands)	
Inventories:		
Raw materials	$ 8,700	$ 12,845
Work-in-process	1,574	3,759
Finished goods	23,977	25,512
	$ 34,251	$ 42,116
Property and equipment:		
Furniture and fixtures	$ 6,725	$ 6,910
Machinery and equipment	56,961	52,394
Leasehold improvements	27,388	27,092
	91,074	86,396
Less: accumulated depreciation and amortization	(76,992)	(71,580)
	$ 14,082	$ 14,816
Accrued liabilities:		
Accrued compensation	$ 12,578	$ 9,332
C-Cube pre-merger liabilities(1)	6,657	9,099
Accrued litigation settlement	6,400	—
Accrued excess facilities costs — current	6,106	6,264
Accrued warranty	5,786	6,061
Other	14,159	13,341
	$ 51,686	$ 44,097

1. Under terms of the merger agreement with C-Cube, Harmonic is generally liable for C-Cube's pre-merger liabilities. Approximately $6.7 million of pre-merger liabilities remain outstanding as of December 31, 2007 and Harmonic expects final settlement of certain of these obligations to a variety of authorities and LSI Logic during 2008. These amounts have been included in accrued liabilities. A payment of $1.1 million was made in January 2008 by Harmonic to settle in one foreign country.

NOTE 9: NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders for the period by the weighted average number of the common shares outstanding during the period. Diluted net loss per share is the same as basic net loss per share for 2005 because potential common shares, such as common shares issuable upon the exercise of stock options, are only considered when their effect would be dilutive. In 2007, 2006 and 2005, 5,590,121, 10,221,543 and 10,352,996 of potentially dilutive shares, consisting of options, were excluded from the net income (loss) per share computations, respectively, because their effect was antidilutive.

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

	Year Ended December 31,		
	2007	2006	2005
	(In thousands, except per share data)		
Net income (loss) (numerator)	$ 23,421	$ 1,007	$ (5,731)
Shares calculation (denominator):			
Weighted average shares outstanding — basic	81,882	74,639	73,279
Effect of Dilutive Securities:			
Potential common stock relating to stock options and ESPP	1,282	544	—
Future issued common stock related to acquisitions	85	—	—
Average shares outstanding — diluted	83,249	75,183	73,279
Net income (loss) per share — basic	$ 0.29	$ 0.01	$ (0.08)
Net income (loss) per share — diluted	$ 0.28	$ 0.01	$ (0.08)

NOTE 10: CREDIT FACILITIES AND LONG-TERM DEBT

Harmonic has a bank line of credit facility with Silicon Valley Bank, which provides for borrowings of up to $10.0 million that matures on March 5, 2009. In March 2007, Harmonic paid in full the outstanding balance of its secured term loan for equipment and canceled its term loan facility as part of the renewal process for the bank line of credit. As of December 31, 2007, other than standby letters of credit and guarantees (Note 17), there were no amounts outstanding under the line of credit facility and there were no borrowings in 2006 or 2007. This facility, which was amended and restated in March 2008, contains a financial covenant with the requirement for Harmonic to maintain cash, cash equivalents and short-term investments, net of credit extensions, of not less than $40.0 million. If Harmonic is unable to maintain this cash, cash equivalents and short-term investments balance or satisfy the affirmative covenant requirement, Harmonic would be in noncompliance with the facility. In the event of noncompliance by Harmonic with the covenant under the facility, Silicon Valley Bank would be entitled to exercise its remedies under the facility which include declaring all obligations immediately due and payable if obligations were not repaid. At December 31, 2007, Harmonic was in compliance with the covenant under this line of credit facility. The March 2008 amendment requires payment of approximately $20,000 of additional fees if the Company does not maintain an unrestricted deposit of $30.0 million with the bank for 10 consecutive days. Future borrowings pursuant to the line bear interest at the bank's prime rate (7.25% at December 31, 2007) or prime plus 0.5% for equipment borrowings. Borrowings are payable monthly and are not collateralized.

NOTE 11: CAPITAL STOCK

Preferred Stock. Harmonic has 5,000,000 authorized shares of preferred stock. On July 23, 2002, The Company classified 100,000 of these shares as Series A Participating Preferred Stock in connection with the Board's same day approval and adoption of a stockholder rights plan. Under the plan, Harmonic declared and paid a dividend of one preferred share purchase right for each share of Harmonic common stock held by our stockholders of record as of the close of business on August 7, 2002. Each preferred share purchase right entitles the holder to purchase from us one one-thousandth of a share of Series A Participating Preferred Stock, par value $0.001 per share, at a price of $25.00, subject to adjustment. The rights are not immediately exercisable, however, and will become exercisable only upon the occurrence of certain events. The stockholder rights plan may have the effect of deterring or delaying a change in control of Harmonic.

Stock Issuances. During 2007, Harmonic issued 12,500,000 shares of common stock in a public offering. The net proceeds to the Company were approximately $141.8 million, which is net of underwriters' discounts and commissions of approximately $7.4 million and related legal, accounting, printing and other costs totaling approximately $0.8 million. In addition, we issued 905,624 shares of common stock as part of the consideration for the purchase of all the outstanding shares of Rhozet. The shares had a value of $8.4 million at the time of issuance. See Note 3 for additional information regarding the acquisition of Rhozet.

During 2006, Harmonic issued 3,579,715 shares of common stock as part of the consideration for the purchase of all the outstanding shares of Entone. The shares had a value of $20.1 million at the time of issuance. See Note 3 for additional information regarding the acquisition of Entone.

Future Issued Shares. The Company has reserved 200,854 shares of Harmonic common stock with a value of $1.9 million for future issuance in connection with the acquisition of Rhozet in July 2007. The shares of Harmonic common stock, are being held back by Harmonic for at least 18 months following the closing of the acquisition to satisfy certain indemnification obligations of Rhozet's shareholders.

NOTE 12: BENEFIT PLANS

Stock Option Plans. Harmonic has reserved 10,841,000 shares of Common Stock for issuance under various employee stock option plans. The options are granted for periods not exceeding ten years and generally vest 25% at one year from date of grant, and an additional 1/48 per month thereafter. Stock options are granted at the fair market value of the stock at the date of grant. Beginning on February 27, 2006, option grants had a term of seven years. Certain option awards provide for accelerated vesting if there is a change in control.

Director Option Plans. In May 2002, Harmonic's stockholders approved the 2002 Director Option Plan (the "Plan"), replacing the 1995 Director Option Plan. In June 2006, Harmonic's stockholders approved an amendment to the Plan and increased the maximum number of shares of common stock authorized for issuance over the term of the Plan by an additional 300,000 shares to 700,000 shares and reduced the term of future options granted under the Plan to seven years. Harmonic has a total of 678,000 shares of Common Stock reserved for issuance under the Director Plans. The Plan provides for the grant of non-statutory stock options to certain non-employee directors of Harmonic pursuant to an automatic, non-discretionary grant mechanism. Options are granted at the fair market value of the stock at the date of grant for periods not exceeding ten years. Initial grants generally vest monthly over three years, and subsequent grants generally vest monthly over one year.

The following table summarizes activities under the Plans:

	Shares Available for Grant	Stock Options Outstanding	Weighted Average Exercise Price
	(In thousands, except exercise price)		
Balance at December 31, 2004	4,603	8,940	$ 13.64
Shares authorized	—	—	—
Options granted	(1,416)	1,416	6.05
Options exercised	—	(476)	6.13
Options canceled	797	(797)	10.54
Options expired	—	(19)	45.90
Balance at December 31, 2005	3,984	9,064	13.05
Shares authorized	300	—	—
Options granted	(2,236)	2,236	5.35
Options exercised	—	(359)	4.18
Options canceled	1,584	(1,584)	11.26
Options expired	—	(108)	42.13
Balance at December 31, 2006	3,632	9,249	11.50
Options granted	(2,514)	2,514	8.59
Options exercised	—	(1,311)	6.30
Options canceled	933	(933)	12.03
Options expired	—	(50)	28.28
Balance at December 31, 2007	2,051	9,469	$ 11.31
Options vested and exercisable as of December 31, 2007		5,819	$ 13.61
Options vested and expected-to-vest as of December 31, 2007		8,884	$ 11.56

The weighted-average fair value of options granted was $4.56, $3.97, and $3.93 for 2007, 2006, and 2005, respectively.

The following table summarizes information regarding stock options outstanding at December 31, 2007:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2007	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2007	Weighted Average Exercise Price
	(In thousands, except exercise price and life)				
$ 0.19 − 5.66	1,058	5.4	$ 3.77	806	$ 3.63
5.67 − 6.40	1,918	5.9	5.92	1,053	5.95
6.41 − 8.20	1,974	5.8	8.11	262	7.69
8.21 − 9.29	1,941	5.0	8.96	1,463	9.06
9.44 − 12.10	1,145	4.8	10.54	802	10.54
12.35 − 25.50	1,041	2.2	23.24	1,041	23.24
26.43 − 121.68	392	2.0	56.41	392	56.41
	9,469	4.9	$ 11.31	5,819	$ 13.61

The weighted-average remaining contractual life for all exercisable stock options at December 31, 2007 was 4.1 years. The weighted-average remaining contractual life of all vested and expected-to-vest stock options at December 31, 2007 was 4.8 years.

Aggregate pre-tax intrinsic value of options outstanding and exercisable at December 31, 2007 and 2006 was $23.7 million and $13.2 million, respectively. The aggregate intrinsic value of stock options vested and expected-to-vest net of estimated forfeitures was $21.9 million at December 31, 2007. Aggregate pre-tax intrinsic value represents the difference between our closing price on the last trading day of the fiscal period, which was $10.48 as of December 31, 2007 and $7.27 as of December 31, 2006, and the exercise price multiplied by the number of options outstanding or exercisable. The intrinsic value of exercised stock options is calculated based on the difference between the exercise price and the quoted market price of our common stock as of the exercise date. The aggregate intrinsic value of exercised stock options was $5.3 million and $1.0 million during the years ended December 31, 2007 and 2006, respectively.

The total realized tax benefit attributable to stock options exercised during the period in jurisdictions where this expense is deductible for tax purposes was $0.1 million in 2007.

Employee Stock Purchase Plan. In May 2002, Harmonic's stockholders approved the 2002 Employee Stock Purchase Plan (the "2002 Purchase Plan") replacing the 1995 Employee Stock Purchase Plan effective for the offering period beginning on July 1, 2002. In May 2004, Harmonic's stockholders approved an amendment to the 2002 Purchase Plan and increased the maximum number of shares of common stock authorized for issuance over the term of the 2002 Purchase Plan by an additional 2,000,000 shares. In June 2006, Harmonic's stockholders approved an amendment to the 2002 Purchase Plan to increase the maximum number of shares of common stock available for issuance under the 2002 Purchase Plan by an additional 2,000,000 shares to 5,500,000 shares and reduce the term of future offering periods to six months, which became effective for the offering period beginning January 1, 2007. The 2002 Purchase Plan enables employees to purchase shares at 85% of the fair market value of the Common Stock at the beginning of the offering period or end of the purchase period, whichever is lower. Offering periods and purchase periods generally begin on the first trading day on or after January 1 and July 1 of each year. The 2002 Purchase Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. During 2007, 2006 and 2005, the number of shares of stock issued under the purchase plans were 669,871, 811,565 and 705,171 shares at weighted average prices of $4.82, $4.04 and $5.05, respectively. The weighted-average fair value of each right to purchase shares of common stock granted under the purchase plans were $2.38, $1.42 and $1.82 for 2007, 2006 and 2005, respectively. At December 31, 2007, 1,813,624 shares were reserved for future issuances under the 2002 Purchase Plan.

Retirement/Savings Plan. Harmonic has a retirement/savings plan which 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 makes discretionary contributions to the plan of 25% of the first 4% contributed by eligible participants up to a maximum contribution per participant of $750 per year. This amount was increased to $1,000 effective January 1, 2006. Such amounts totaled $0.3 million in 2007, $0.3 million in 2006, and $0.3 million in 2005.

Stock-based Compensation

The following table summarizes the impact of options from SFAS 123(R) on stock-based compensation costs for employees on our Consolidated Statements of Operations for the years ended December 31, 2007 and 2006:

	Year Ended December 31, 2007	Year Ended December 31, 2006
	(In thousands)	
Employee stock-based compensation in:		
Cost of sales	$ 997	$ 957
Research and development expense	2,012	1,638
Sales, general and administrative expense	2,847	2,944
Total employee stock-based compensation in operating expense	4,859	4,582
Total employee stock-based compensation	5,856	5,539
Amount capitalized in inventory	1	31
Total other stock-based compensation (1)	339	182
Total stock-based compensation	$ 6,196	$ 5,752

(1) Other stock-based compensation represents charges related to non-employee stock options.

As of December 31, 2007, total unamortized stock-based compensation cost related to unvested stock options was $14.6 million, with the weighted average recognition period of 2.7 years.

If the fair value based method prescribed by SFAS 123 had been applied in measuring employee stock-based compensation in fiscal year 2005 the pro forma effect on net loss and net loss per share would have been as follows:

	Year Ended December 31, 2005 (In thousands, except per share amounts)
Net loss, as reported	$ (5,731)
Less: Stock-based compensation expense previously determined under fair value based method, net of related tax effects	(8,936)
Pro forma net loss, after effect of stock-based compensation for employees	$ (14,667)
Net loss per share:	
Basic – as reported for prior period	$ (0.08)
Basic – after effect of stock-based compensation for employees	$ (0.20)
Diluted – as reported for prior period	$ (0.08)
Diluted – after effect of stock-based compensation for employees	$ (0.20)

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

	Employee Stock Options			Employee Stock Purchase Plan		
	2007	2006	2005	2007	2006	2005
Expected life (years)	4.75	4.75	3.6	0.5	0.5	0.8
Volatility	58%	75%	96%	51%	54%	69%
Risk-free interest rate	4.7%	4.6%	3.8%	4.9%	5.0%	3.7%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The expected term for employee stock options and the ESPP represents the weighted-average period that the stock options are expected to remain outstanding. We derived the expected term using the SAB 107 simplified method. As alternative sources of data become available in order to determine the expected term we will incorporate these data into our assumption.

We use the historical volatility over the expected term of the options and the ESPP offering period to estimate the expected volatility. We believe that the historical volatility, at this time, represents fairly the future volatility of its common stock. We will continue to monitor relevant information to measure expected volatility for future option grants and ESPP offering periods.

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

NOTE 13: INCOME TAXES

Income before provision for income taxes consisted of the following:

	2007	2006	2005
		(In thousands)	
United States	24,260	4,247	(3,656)
International	1,261	(2,631)	(1,638)
	$ 25,521	$ 1,616	$ (5,294)

The provision for income taxes consists of the following:

	December 31,		
	2007	2006	2005
		(In thousands)	
Current:			
United States	$ 1,677	$ 351	$ —
International	423	258	437
	2,100	609	437
Deferred:			
United States	—	—	—
International	—	—	—
	$ 2,100	$ 609	$ 437

Harmonic's provision for income taxes differed from the amount computed by applying the statutory U.S. federal income tax rate to the loss before income taxes as follows:

	December 31,		
	2007	2006	2005
		(In thousands)	
Provision for (benefit from) income taxes at U.S.			
Federal statutory rate	$ 8,933	$ 565	$ (1,853)
State Taxes	416	99	—
Differential in rates on foreign earnings	56	(160)	(123)
Losses for which no benefit, (benefit) is taken	(9,887)	(1,687)	2,173
Alternative Minimum Taxes	837	252	—
Change in liabilities for uncertain tax positions	424	—	—
Non-deductible stock compensation	1,076	1,297	—
Non-deductible meals and entertainment	171	225	177
Other	74	18	63
Provision for income taxes	$ 2,100	$ 609	$ 437

Deferred tax assets (liabilities) comprise the following:

	December 31,		
	2007	2006	2005
		(In thousands)	
Deferred tax assets:			
Reserves and accruals	$ 35,365	$ 31,212	$ 30,446
Net operating loss carryovers	58,646	72,605	78,687
Depreciation and amortization	9,091	8,751	10,849
Research and development credit carryovers	11,462	10,419	9,482
Other	5,147	3,489	1,275
Total deferred tax assets	119,711	126,476	130,739
Valuation allowance	(112,330)	(120,069)	(130,739)
Net deferred tax assets	7,381	6,407	—
Deferred tax liabilities:			
Intangibles	(7,013)	(6,407)	(525)
Net deferred tax assets (liabilities)	$ 368	$ —	$ (525)

On January 1, 2007 we adopted the provisions of Financial Standards Accounting Board Interpretation 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109" ("FIN 48"). The effect of adopting this pronouncement was a decrease in the Company's retained earnings of $2.1 million for interest and penalties. At the date of adoption we had $8.5 million of unrecognized tax benefits. As a result of the adoption of FIN 48, the liability of $6.4 million was reclassified from current taxes payable to long-term taxes payable. Our unrecognized tax benefits at December 31, 2007 related to tax benefits in various jurisdictions. The federal and state net operating loss carryforwards may be subject to an annual limitation due to the ownership change provisions of the Internal Revenue Code Section 382.

The following table summarizes the activity related to our gross unrecognized tax benefits:

	Total (In thousands)
Balance at January 1, 2007	$ 12.1
Increases related to current year tax positions	0.7
Expiration of the statute of limitations for the assessment of taxes	(0.7)
Balance at December 31, 2007	$ 12.1

The total amount of unrecognized tax positions that would impact the effective tax rate is approximately $5.8 million at December 31, 2007. We also accrued potential penalties and interest of $0.2 million and $0.8 million, respectively, related to these unrecognized tax benefits during 2007, and in total, as of December 31, 2007, we had recorded a liability for potential penalties and interest of $0.9 million and $2.2 million, respectively. The Company has reversed $0.7 million of liability pursuant to FIN 48 due to the expiration of the statute of limitations with respect to audits of past tax years in two foreign jurisdictions. The Company does not anticipate a significant change in unrecognized tax benefits within the next 12 months.

We file U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations during which such tax returns may be audited and adjusted by the relevant tax authorities. The 2004 through 2007 tax years generally remain subject to examination by federal and most state tax authorities. In addition, U.S. tax returns are open from 2003 to 2004 to the extent of net operating losses generated during these periods and are being utilized in the open tax periods. Also, U.S. tax returns are open from 1991 to 2004 to the extent of research and development credit was generated during these periods and is being utilized in open tax years. In significant foreign jurisdictions, the 2001 through 2007 tax years generally remain subject to examination by their respective tax authorities.

We anticipate the unrecognized tax benefits may increase during the year for items that arise in the ordinary course of business. Such amounts will be reflected as an increase in the amount of unrecognized tax benefits and an increase to the current period tax expense. These increases will be considered in the determination of the Company's annual effective tax rate. The amount of the unrecognized tax benefit classified as a long-term tax payable, if recognized, would reduce the annual income provision.

As of December 31, 2007, we maintained a valuation allowance against certain of our net deferred tax assets because we expect that it is more likely than not that all deferred tax assets will not be realized in the foreseeable future. We continuously monitor the circumstances impacting the expected realization of our deferred tax assets for each jurisdiction. We consider all available evidence, both positive and negative, including historical levels of income in each jurisdiction, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If we determine it is more likely than not that some or all of our deferred tax assets will be realized in the foreseeable future, we will adjust our valuation allowance accordingly. A change in our assessment regarding the realization of our deferred tax assets will impact our effective tax rate in the period we revise our assessment and in subsequent periods. As of December 31, 2007 our valuation allowance totaled $112.3 million. As of December 31, 2007, the Company had $139.7 million of federal and $46.8 million of state net operating loss carryforwards available to reduce future taxable income which will begin to expire in 2021 and 2013 for federal tax purposes and for state tax purposes, respectively. As of December 31, 2007 the Company had foreign net operating loss carryforwards of $32.6 million which do not expire. The federal and state net operating loss carryforwards may be subject to an annual limitation due to the ownership change provisions of the Internal Revenue Code Section 382.

As of December 31, 2007, the portion of the federal net operating loss carryforwards which relates to stock option deductions is approximately $10.5 million. As of December 31, 2007, the portion of state net operating carryforwards which relates to stock option deductions is approximately $5.6 million. The Company is tracking the portion of its deferred tax assets attributable to stock option benefits arising subsequent to January 1, 2006 in a separate memo account pursuant to SFAS 123(R). Therefore these amounts are no longer included in the Company's gross or net deferred tax assets. Pursuant to FAS 123(R), the benefit of these net operating loss carryforwards will only be recorded to equity when they reduce taxes payable.

As of December 31, 2007, the Company had federal and state tax credit carryovers of approximately $6.2 million and $9.8 million, respectively, available to offset future taxable income. The federal credits expire beginning in 2008, while the state credits will not expire.

Our effective tax rate for 2007, 2006 and 2005 differs from the U.S. statutory rate primarily due to utilization of unbenefited net operating loss carryforwards.

Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain in the United States and certain foreign jurisdictions. Accordingly, certain net deferred tax assets have been offset by a valuation allowance. The deferred tax liabilities relate to purchase accounting for acquisitions.

Utilization of the Company's net operating loss and tax credits may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss before utilization.

U.S. income taxes were not provided for on a cumulative total of approximately $12.7 million of undistributed earnings for certain non-U.S. subsidiaries. Determination of the amount of unrecognized deferred tax liability for temporary differences related to investments in these non-U.S. subsidiaries that are essentially permanent in duration is not practicable. The company currently intends to reinvest these earnings in operations outside the U.S

NOTE 14: SEGMENT INFORMATION

We operate our business in one reportable segment, which is the design, manufacture and sales of products and systems that enable network operators to efficiently deliver broadcast and on-demand video services that include digital audio, video-on-demand and high definition television as well as high-speed internet access and telephony. 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.

Our revenue by geographic region, based on the location at which each sale originates, is summarized as follows:

Geographic Information:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Net sales:			
United States	$ 175,257	$ 126,420	$ 153,264
International	135,947	121,264	104,114
Total	$ 311,204	$ 247,684	$ 257,378
Property and equipment:			
United States	$ 11,834	$ 12,791	$ 14,994
International	2,248	2,025	2,046
Total	$ 14,082	$ 14,816	$ 17,040

Major Customers. To date, a substantial majority of Harmonic's net sales have been to relatively few customers, and Harmonic expects this customer concentration to continue in the foreseeable future. In 2007, sales to Comcast and EchoStar accounted for 16% and 12% of net sales, respectively. In 2006 and 2005, sales to Comcast accounted for 12% and 18% of net sales, respectively.

The Company's assets are primarily located within the United States of America.

NOTE 15: RELATED PARTY

A director of Harmonic is also a director of JDS Uniphase Corporation, from whom the Company purchases products used in the manufacture of our products. Product purchases from JDS Uniphase were approximately $1.0 million during 2007. As of December 31, 2007, Harmonic had liabilities to JDS Uniphase of approximately $0.1 million.

A director of Harmonic was also a director of Terayon Communications Systems, Inc. until Terayon's merger with Motorola in July 2007, and the Company purchased products for resale from Terayon. During 2007 and 2006, the Company purchased $1.6 million and $4.4 million, respectively, in products from Terayon. As of December 31, 2007 and 2006, Harmonic had liabilities to Terayon of zero and approximately $1.0 million, respectively, for inventory purchases.

NOTE 16: CONVERTIBLE NOTE RECEIVABLE

On July 5, 2007, Harmonic purchased an unsecured convertible promissory note from Entone, Inc. with a face amount of $2.5 million. Interest accrues on the note at the rate of 4.95% per annum and will be due with principal at the earlier of August 21, 2011 or upon a "Change of Control Transaction" of Entone, Inc, unless the note is otherwise converted. The principal amount of $2.5 million and all accrued interest will automatically convert into preferred stock of Entone when it closes its next preferred stock equity financing of at least $8.0 million prior to the due date of the note. Upon the next preferred stock equity financing, Harmonic will be entitled to receive shares of such series of preferred stock equal to the principal amount of the note and all accrued interest up to the date of conversion divided by the greater of (i) 80% of the per share purchase price of the such preferred stock or (ii) the original purchase price of Entone's Series A preferred stock. Upon a Change of Control Transaction, Harmonic will be entitled to receive Series A preferred stock equal to the $2.5 million principal amount of the note and all accrued interest up to the date of conversion divided by the greater of (a) 80% of the amount received by a holder for a share of Series A preferred stock in connection with such Change of Control Transaction, assuming conversion of the note, or (b) the original purchase price of the Series A Preferred Stock.

The Convertible Note is tested for impairment whenever events indicate that impairment may have occurred. The note is included in Other Assets on the Balance Sheet as of December 31, 2007.

NOTE 17: 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 adjusts 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:

	2007	2006
	(In thousands)	
Balance as of January 1	$ 6,061	$ 6,166
Accrual for warranties	4,182	4,038
Warranty costs incurred	(4,457)	(4,143)
Balance as of December 31	$ 5,786	$ 6,061

Standby Letters of Credit. As of December 31, 2007 the Company's financial guarantees consisted of standby letters of credit outstanding, which were principally related to customs bond requirements, performance bonds and state requirements imposed on employers. The maximum amount of potential future payments under these arrangements was $0.3 million.

Indemnifications. 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 customers for specified intellectual property matters pursuant to certain contractual arrangements, subject to certain limitations. The scope of these indemnities varies, but in some instances, includes indemnification for damages and expenses (including reasonable attorneys' fees). There have been no claims against us for indemnification pursuant to any of these arrangements and, accordingly, no amounts have been accrued in respect of the indemnifications provisions through December 31, 2007.

Guarantees. As of December 31, 2007, Harmonic had no other guarantees outstanding.

NOTE 18: COMMITMENTS AND CONTINGENCIES

Commitments — Leases. Harmonic leases its facilities under noncancelable operating leases which expire at various dates through September 2010. In addition, Harmonic leases vehicles in several foreign countries under noncancelable operating leases which expire in 2008. Total lease payments related to these operating leases were $12.9 million, $11.7 million and $12.0 million for 2007, 2006 and 2005, respectively. Future minimum lease payments under noncancelable operating leases at December 31, 2007, are as follows:

	Total (In thousands)
2008	$ 13,844
2009	13,980
2010	10,491
2011	42
Thereafter	—
	$ 38,357

As of December 31, 2007, $19.7 million of these future lease payments were accrued for as part of accrued excess facility costs. See Note 5 "Restructuring, Excess Facilities and Inventory Provisions."

Commitments — Royalties. Harmonic has licensed certain technologies from various companies and incorporates this technology into its own products and is required to pay royalties usually based on shipment of products. In addition, Harmonic has obtained research and development grants under various Israeli government programs that require the payment of royalties on sales of certain products resulting from such research. During 2007, 2006 and 2005 royalty expenses were $1.6 million, $1.6 million and $1.1 million, respectively.

Purchase Commitments with Contract Manufacturers and Suppliers. The Company relies on a limited number of contract manufacturers and suppliers to provide manufacturing services for a substantial majority of its products. In addition, some components, sub-assembly and modules are obtained from a sole supplier or limited group of suppliers. During the normal course of business, in order to reduce manufacturing lead times and ensure adequate component supply, the Company enters into agreements with certain contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by the Company.

Commitments — Contingencies. 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. In particular, leading companies in the telecommunications industry have extensive patent portfolios. From time to time, third parties, including these leading companies, have asserted and may assert exclusive patent, copyright, trademark and other intellectual property rights against us or our customers. Such assertions and claims arise in the normal course of our operations. The resolution of assertions and claims cannot be predicted with certainty. Management believes that the final outcome of such matters would not have a material adverse effect on Harmonic's business, operating results, financial position or cash flows.

NOTE 19: LEGAL PROCEEDINGS

In 2000, several actions alleging violations of the federal securities laws by Harmonic and certain of its officers and directors (some of whom are no longer with Harmonic) were filed in or removed to the United States District Court (the "District Court") for the Northern District of California. The actions subsequently were consolidated.

A consolidated complaint, filed on December 7, 2000, was brought on behalf of a purported class of persons who purchased Harmonic's publicly traded securities between January 19, 2000 and June 26, 2000. The complaint also alleged claims on behalf of a purported subclass of persons who purchased C-Cube securities between January 19, 2000 and May 3, 2000. In addition to Harmonic and certain of its officers and directors, the complaint also named C-Cube Microsystems Inc. and several of its officers and directors as defendants. The complaint alleged that, by making false or misleading statements regarding Harmonic's prospects and customers and its acquisition of C-Cube, certain defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The complaint also alleged that certain defendants violated section 14(a) of the Exchange Act and sections 11, 12(a)(2), and 15 of the Securities Act of 1933, or the Securities Act, by filing a false or misleading registration statement, prospectus, and joint proxy in connection with the C-Cube acquisition.

Following a series of procedural actions at the District Court and at the United States Court of Appeals for the Ninth Circuit, a significant number of the claims alleged in the plaintiffs' amended complaint were dismissed, including all claims against C-Cube and its officers and directors. However, certain of the plaintiffs claims survived dismissal. In January 2007, the District Court set a trial date for August 2008, and also ordered the parties to participate in mediation.

A derivative action purporting to be on our behalf was filed in the Superior Court for the County of Santa Clara against certain current and former officers and directors on May 15, 2003. It alleges facts similar to those alleged in the securities class action and names us as a nominal defendant. The action remains pending with no trial date set.

As a result of discussions and negotiations between plaintiffs' counsel and Harmonic, and Harmonic and its insurance carriers, a tentative agreement was reached in March 2008 to resolve the securities class action lawsuit. If finalized, the settlement would release Harmonic, its officers, directors and insurance carriers from all claims brought in the lawsuit by the plaintiffs against Harmonic or its officers and directors, without any admission of fault on the part of Harmonic or its officers and directors. This tentative agreement remains subject to certain contingencies, including negotiation and execution by the parties of a written settlement agreement, funding by our insurance carriers, and approval by the District Court.

Under the terms of the tentative agreement to settle the securities class action lawsuit, Harmonic and its insurance carriers will pay $15.0 million in consideration to the plaintiffs in the securities class action. Of this amount, Harmonic will pay $5.0 million, and Harmonic's insurance carriers, in addition to having funded most litigation costs to date, will contribute the remaining $10.0 million on behalf of the individual defendants. The plaintiffs' lawyers will apply for an award of fees and costs in an unspecified amount to be paid from the $15.0 million in consideration and subject to the approval of the District Court. In addition, Harmonic estimates that it will pay approximately $1.4 million in related fees and expenses in connection with proceedings in the securities class action and derivative lawsuits. Harmonic expects to pay its share of the settlement promptly following preliminary approval of the settlement by the District Court. Harmonic expects that preliminary approval will occur during the second or third quarter of 2008. Based on the conditions stated in SFAS 5, "Accounting for Contingencies", that the liability had been incurred as of December 31, 2007 and the amount of loss can be reasonably estimated, the Company recorded a provision of $6.4 million in its selling, general and administrative expenses for the year ended December 31, 2007.

On July 3, 2003, Stanford University and Litton Systems filed a complaint in U.S. District Court for the Central District of California alleging that optical fiber amplifiers incorporated into certain of Harmonic's products infringe U.S. Patent No. 4859016. This patent expired in September 2003. The complaint seeks injunctive relief, royalties and damages. Harmonic has not been served in the case. At this time, we are unable to determine whether we will be able to settle this litigation on reasonable terms or at all, nor can we predict the impact of an adverse outcome of this litigation if we elect to defend against it. No estimate can be made of the possible range of loss associated with the resolution of this contingency and accordingly, we have not recorded a liability associated with the outcome of a negotiated settlement or an unfavorable verdict in litigation. An unfavorable outcome of this matter could have a material adverse effect on Harmonic's business, operating results, financial position or cash flows.

Harmonic is involved in other litigation and may be subject to claims arising in the normal course of business. In the opinion of management the amount of ultimate liability with respect to these matters in the aggregate will not have a material adverse effect on the Company or its operating results, financial position or cash flows.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 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 Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.

Our management's report on our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and the related attestation report of our independent registered public accounting firm, are included on pages 58 and 60 of this Annual Report on Form 10-K, and are incorporated herein by reference.

Changes in Internal Control over Financial Reporting.

There was no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal year 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K pursuant to Instruction G to Exchange Act Form 10-K, and the Registrant will file its definitive Proxy Statement for its 2008 Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the “2008 Proxy Statement”), not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included in the 2008 Proxy Statement is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance

Information concerning our directors required by this item will be set forth in the 2008 Proxy Statement and is incorporated herein by reference.

Information concerning our executive officers required by this item is included in Part I, Item 1 hereof under the caption, “Executive Officers of Registrant”.

Information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934 will be set forth in the 2008 Proxy Statement and is incorporated herein by reference.

Information concerning our audit committee and our audit committee financial expert will be set forth in our 2008 Proxy Statement and is incorporated herein by reference.

Harmonic has adopted a Code of Business Conduct and Ethics for Senior Operational and Financial Leadership (the “Code”) which applies to its Chief Executive Officer, its Chief Financial Officer, its Corporate Controller and other senior operational and financial management. The Code is available on the Company’s website at www.harmonicinc.com.

Harmonic intends to satisfy the disclosure requirement under Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethics by posting such information on our website, at the address specified above, and to the extent required by the listing standards of the Nasdaq Global Market, by filing a Current Report on Form 8-K with the Securities and Exchange Commission disclosing such information.

Item 11. Executive Compensation

The information required by this item will be set forth in the 2008 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information related to security ownership of certain beneficial owners and security ownership of management and related stockholder matters will be set forth in the 2008 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be set forth in the 2008 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required for this item will be set forth in the 2008 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(1) *Financial Statements.* See Index to Consolidated Financial Statements at Item 8 on page 58 of this Annual Report on Form 10-K.

(2) *Financial Statement Schedules.* Financial statement schedules have been omitted because the information is not required to be set forth herein, is not applicable or is included in the financial statements or notes thereto.

(3) *Exhibits.* The documents listed in the Exhibit Index of this Annual Report on Form 10-K are filed herewith or are incorporated by reference in this Annual Report on Form 10-K, in each case as indicated therein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Act of 1934, the Registrant, Harmonic Inc., a Delaware corporation, has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California, on March 17, 2008.

HARMONIC INC.

By: /s/ PATRICK J. HARSHMAN

Patrick J. Harshman

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K, has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ PATRICK J. HARSHMAN (Patrick J. Harshman)	President & Chief Executive Officer (Principal Executive Officer)	March 17, 2008
/s/ ROBIN N. DICKSON (Robin N. Dickson)	Chief Financial Officer (Principal Financial and Accounting Officer)	March 17, 2008
/s/ ANTHONY J. LEY (Anthony J. Ley)	Chairman	March 17, 2008
/s/ HAROLD L. COVERT (Harold L. Covert)	Director	March 17, 2008
/s/ PATRICK GALLAGHER (Patrick Gallagher)	Director	March 17, 2008
/s/ E. FLOYD KVAMME (E. Floyd Kvamme)	Director	March 17, 2008
/s/ WILLIAM REDDERSEN (William Reddersen)	Director	March 17, 2008
/s/ LEWIS SOLOMON (Lewis Solomon)	Director	March 17, 2008
/s/ DAVID VAN VALKENBURG (David Van Valkenburg)	Director	March 17, 2008

EXHIBIT INDEX

The following Exhibits to this report are filed herewith, or if marked with a (i), (ii), (iii), (iv), (v), (vi), (vii), (viii), (ix), (x), (xi), (xii), (xiii), (xiv), (xv), (xvi), (xvii), (xviii), (xix) and are incorporated herein by reference.

Exhibit Number	
2.1(iii)	Agreement and Plan of Merger and Reorganization by and among C-Cube Microsystems, Inc. and the Registrant dated October 27, 1999
3.1(vi)	Certificate of Incorporation of Registrant as amended
3.3	Amended and Restated Bylaws of Registrant
4.1(i)	Form of Common Stock Certificate
4.2(vii)	Preferred Stock Rights Agreement dated July 24, 2002 between the Registrant and Mellon Investor Services LLC
4.3(vii)	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating in Preferred Stock of Registrant
4.4(i)	Registration and Participation Rights and Modification Agreement dated as of July 22, 1994 among Registrant and certain holders of Registrant's Common Stock
10.1(i)*	Form of Indemnification Agreement
10.2(i)*	1995 Stock Plan and form of Stock Option Agreement
10.3(i)*	1995 Director Option Plan and form of Director Option Agreement
10.4(ii)	Business Loan Agreement, Commercial Security Agreement and Promissory Note dated August 26, 1993, as amended on September 14, 1995, between Registrant and Silicon Valley Bank
10.5(ii)	Facility lease dated as of January 12, 1996 by and between Eastrich No. 137 Corporation and Company
10.6(ix)*	Form of Change of Control Severance Agreement between Registrant and certain executive officers of Registrant
10.7(iv)*	1999 Nonstatutory Stock Option Plan
10.8(iv)	Lease Agreement for 603-611 Baltic Way, Sunnyvale, California
10.9(iv)	Lease Agreement for 1322 Crossman Avenue, Sunnyvale, California
10.10(iv)	Lease Agreement for 646 Caribbean Drive, Sunnyvale, California
10.11(iv)	Lease Agreement for 632 Caribbean Drive, Sunnyvale, California
10.12(iv)	First Amendment to the Lease Agreement for 549 Baltic Way, Sunnyvale, California
10.13(viii)*	2002 Director Option Plan and Form of Stock Option Agreement
10.14(viii)*	2002 Employee Stock Purchase Plan and Form of Subscription Agreement
10.15(v)	Supply License and Development Agreement, dated as of October 27, 1999, by and between C-Cube Microsystems and Harmonic
10.16(x)	First Amendment to Second Amended and Restated Loan and Security Agreement by and between Harmonic Inc., as Borrower, and Silicon Valley Bank, as Lender, dated as of December 16, 2005
10.17(xi)	Transition Agreement by and between Harmonic Inc. and Anthony Ley, effective May 5, 2006
10.18(xvi)	Change of Control Severance Agreement by and between Harmonic Inc. and Patrick Harshman, effective May 30, 2006
10.19(xiii)	Agreement and Plan of Merger, by and among Harmonic Inc., Edinburgh Acquisition Corporation, Entone Technologies, Inc., Entone, Inc., Entone Technologies (HK) Limited, Jim Jones, as stockholders' representative, and U.S. Bank, National Association, as escrow agent, dated as of August 21, 2006
10.20(xiv)	Amendment No. 1 to Agreement and Plan of Merger, by and among Harmonic Inc., Edinburgh Acquisition Corporation, Entone Technologies, Inc., Entone, Inc., Entone Technologies (HK) Limited, Jim Jones, as stockholders' representative, and U.S. Bank, National Association, as escrow agent, dated August 21, 2006

Exhibit Number	
10.21	Second Amended and Restated Loan and Security Agreement, dated December 17, 2004, by and between Harmonic Inc. and Silicon Valley Bank
10.22(xv)	Amendment No. 2 to the Second Amended and Restated Loan and Security Agreement, dated as of December 15, 2006, by and between Harmonic Inc. and Silicon Valley Bank
10.23(xvi)	Amendment No. 3 to the Second Amended and Restated Loan and Security Agreement, dated March 21, 2007, by and between Harmonic Inc. and Silicon Valley Bank
10.24(xvii)	Change of Control Severance Agreement by and between Harmonic Inc. and Charles Bonasera, effective April 24, 2007
10.25(xvii)	Change of Control Severance Agreement by and between Harmonic Inc. and Neven Haltmayer, effective April 19, 2007
10.26(xviii)	Agreement and Plan of Merger by and among Rhozet Corporation, Dusseldorf Acquisition Corporation, Harmonic Inc. and David Trescot, as shareholder representative, dated July 25, 2007
10.27(xix)	Purchase Agreement, dated October 31, 2007, by and between Harmonic Inc. and Merrill Lynch & Co
10.28(xx)	Change of Control Severance Agreement, dated October 1, 2007, between Harmonic and Matthew Aden
10.29	Amendment No. 4 to the Second Amended and Restated Loan and Security Agreement, dated March 12, 2008, by and between Harmonic Inc. and Silicon Valley Bank
21.1	Subsidiaries of Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Indicates a management contract or compensatory plan or arrangement relating to executive officers or directors of the Company.

(i) Previously filed as an Exhibit to the Company's Registration Statement on Form S-1 No. 33-90752.

(ii) Previously filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

(iii) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated November 1, 1999.

(iv) Previously filed as an Exhibit to the Company's Amendment to its Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2000.

(v) Previously filed as an Exhibit to the Company's Registration Statement on Form S-4 No. 333-33148.

(vi) Previously filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

(vii) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated July 25, 2002.

(viii) Previously filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

(ix) Previously filed as an Exhibit to the Company's Current Annual Report on Form 10-K for the year ended December 31, 2003.

(x) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated December 22, 2005.

(xi) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated May 11, 2006.

(xii) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated May 31, 2006.

(xiii) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated August 25, 2006.

(xiv) Previously filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

(xv) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated December 21, 2006.

(xvi) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated March 22, 2007.

(xvii) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated April 25, 2007.

(xviii) Previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2007.

(xix) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated November 1, 2007.

(xx) Previously filed as an Exhibit to the Company's Current Report on Form 8-K dated November 13, 2007.

Exhibit 3.3

AMENDED AND RESTATED

BYLAWS

OF

HARMONIC INC.
(a Delaware corporation)

TABLE OF CONTENTS

AMENDED AND RESTATED

BYLAWS

OF

HARMONIC INC.
(a Delaware corporation)

ARTICLE I

CORPORATE OFFICES

1.1 REGISTERED OFFICE

The registered office of the corporation shall be fixed in the certificate of incorporation of the corporation.

1.2 OTHER OFFICES

The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation, the annual meeting of stockholders shall be held on the first Tuesday in May in each year at 9:00 a.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding full business day. At the meeting, directors shall be elected, and any other proper business may be transacted.

2.3 SPECIAL MEETING

A special meeting of the stockholders may be called at any time by the board of directors, the chairman of the board of directors, or by the president, but such special meetings may not be called by any other person or persons except as otherwise required by General Corporation Law of Delaware or Section 3.4 herein. Only such business shall be considered at a special meeting of stockholders as shall have been stated in the notice for such meeting.

2.4 NOTICE OF STOCKHOLDERS' MEETINGS

All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and (i) in the case of a special meeting, the purpose or purposes for which the meeting is called (no business other than that specified in the notice may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders (but any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election. Any previously scheduled meeting of the stockholders may be postponed, and (unless the certificate of incorporation otherwise provides) any special meeting of the stockholders may be cancelled, by resolution of the board of directors upon public notice given prior to the date previously scheduled for such meeting of stockholders.

2.5 ADVANCE NOTICE OF STOCKHOLDER NOMINEES AND STOCKHOLDER BUSINESS

(a) To be properly brought before an annual meeting or special meeting, nominations for the election of directors or other business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (ii) otherwise properly brought before the meeting by or at the direction of the board of directors or (iii) otherwise properly brought before the meeting by a stockholder. Except as otherwise required by General Corporation Law of Delaware or Section 3.4 herein, stockholders may not bring business before a special meeting of stockholders.

(b) For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than one hundred twenty (120) calendar days in advance of the date specified in the corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received a reasonable time before the solicitation is made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, (iv) any material interest of the stockholder in such business and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the Exchange Act and must otherwise comply with the Exchange Act and the regulations promulgated thereunder with respect to such stockholder proposal. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 2.5. The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 2.5, and, if he should so determine, he shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(c) Only persons who are nominated in accordance with the procedures set forth in this paragraph (c) shall be eligible for election as directors. Nominations of persons for election to the board of directors of the corporation may be made at an annual meeting of stockholders by or at the direction of the board of directors or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this paragraph (c). Such nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation in accordance with the provisions of paragraph (b) of this Section 2.5. Nominations of persons for election to the board of directors of the corporation may be made at a special meeting of stockholders by a stockholder (if the business to be conducted at such meeting, as specified in the notice described in Section 2.4(i), includes the election of directors) if the notice required by this paragraph (c) shall be delivered to the Secretary of the corporation not later than the close of business on the later of the 90 th day prior to such special meeting or the 10 th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. For the purposes of this Section 2.5, and Section 2.8 herein, a "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission. A stockholder's notice delivered pursuant to this Section 2.5 shall set forth (i) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation which are beneficially owned by such person, (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (ii) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (b) of this Section 2.5. At the request of the board of directors, any person nominated by a stockholder for election as a director shall furnish to the Secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. Stockholders nominating directors under 2.5(c) must also comply with all applicable requirements of the Exchange Act and the regulations promulgated thereunder with respect to such nominations. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this paragraph (c). The chairman of the meeting shall, if the facts warrants, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these bylaws, and if he should so determine, he shall so declare at the meeting, and the defective nomination shall be disregarded.

2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Written notice of any meeting of stockholders shall be given either personally or by first-class mail or by telegraphic or other written communication. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication. If any notice addressed to a stockholder at the address of that stockholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the stockholder at that address, then all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the stockholder on written demand of the stockholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

2.7 QUORUM

The holders of a majority in voting power of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy at the meeting, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the holders of a majority of the shares represented at the meeting and entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting in accordance with Section 2.8 of these bylaws.

When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the laws of the State of Delaware or of the certificate of incorporation or these bylaws, a different vote is required, in which case such express provision shall govern and control the decision of the question.

If a quorum be initially present, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken is approved by a majority of the stockholders initially constituting the quorum.

2.8 ADJOURNED MEETING; NOTICE

Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by (i) the chairman of the meeting or (ii) the stockholders by the vote of the holders of a majority of the shares represented at that meeting and entitled to vote thereat, either in person or by proxy. In the absence of a quorum, no other business may be transacted at that meeting except as provided in Section 2.7 of these bylaws.

When a meeting is adjourned to another time and place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. In no event shall the public announcement of an adjournment of a stockholders meeting commence a new time period for the giving of a stockholder's notice as described in Section 2.5(b) or 2.5(c) herein. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners, and to voting trusts and other voting agreements).

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder. Any stockholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote them against the proposal; but, if the stockholder fails to specify the number of shares which the stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares which the stockholder is entitled to vote.

2.10 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT

The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though they had been taken at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. The waiver of notice or consent or approval need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of and presence at that meeting, except when the person objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law to be included in the notice of the meeting but not so included, if that objection is expressly made at the meeting.

2.11 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing setting forth the action so taken shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Such consents shall be delivered to the corporation by delivery to it registered office in the state of Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested.

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING

For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, and in such event only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date.

If the board of directors does not so fix a record date:

(a) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held; and

(b) the record date for determining stockholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the board is required, shall be the day on which the first written consent is delivered to the corporation as provided in Section 2.3(b) of the General Corporation Law of Delaware, or (ii) when prior action by the board is required, shall be at the close of business on the day on which the board adopts the resolution relating to that action.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board of directors fixes a new record date for the adjourned meeting, but the board of directors shall fix a new record date if the meeting is adjourned for more than thirty (30) days from the date set for the original meeting.

The record date for any other purpose shall be as provided in Section 8.1 of these bylaws.

2.13 PROXIES

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, telefacsimile or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(e) of the General Corporation Law of Delaware.

2.14 ORGANIZATION

The president, or in the absence of the president, the chairman of the board, shall call the meeting of the stockholders to order, and shall act as chairman of the meeting. In the absence of the president, the chairman of the board, and all of the vice presidents, the stockholders shall appoint a chairman for such meeting. The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such matters as the regulation of the manner of voting and the conduct of business. The secretary of the corporation shall act as secretary of all meetings of the stockholders, but in the absence of the secretary at any meeting of the stockholders, the chairman of the meeting may appoint any person to act as secretary of the meeting.

2.15 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

2.16 INSPECTORS OF ELECTION

Before any meeting of stockholders, the board of directors may appoint an inspector or inspectors of election to act at the meeting or its adjournment. If no inspector of election is so appointed, then the chairman of the meeting may, and on the request of any stockholder or a stockholder's proxy shall, appoint an inspector or inspectors of election to act at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting pursuant to the request of one (1) or more stockholders or proxies, then the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

(a) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(b) receive votes, ballots or consents;

(c) hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) count and tabulate all votes or consents;

(e) determine when the polls shall close;

(f) determine the result; and

(g) do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the General Corporation Law of Delaware and to any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and shall be exercised by or under the direction of the board of directors. In addition to the powers and authorities these bylaws expressly confer upon them, the board of directors may exercise all such powers of the corporation and do all such lawful acts and things as are not by the General Corporation Law of Delaware or by the certificate of incorporation or by these bylaws required to be exercised or done by the stockholders.

3.2 NUMBER OF DIRECTORS

The board of directors shall consist of eight (8) members. The number of directors may be changed by an amendment to this bylaw, duly adopted by the board of directors or by the stockholders, or by a duly adopted amendment to the certificate of incorporation. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the stockholders called for that purpose in the manner provided in these Bylaws.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Each director, including a director elected or appointed to fill a vacancy, shall hold office until the expiration of the term for which elected and until such director's successor has been elected and qualified or until such director's earlier resignation or removal.

3.4 RESIGNATION AND VACANCIES

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

Vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director; however, a vacancy created by the removal of a director by the vote of the stockholders or by court order may be filled only by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute a majority of the required quorum). Each director so elected shall hold office until the next annual meeting of the stockholders and until a successor has been elected and qualified.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

Any directors chosen pursuant to this Section 3.4 shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor shall have been duly elected and qualified.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent (10%) of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

3.5 REMOVAL OF DIRECTORS

Unless otherwise restricted by statute, by the certificate of incorporation or by these bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors; provided, however, that, if and so long as stockholders of the corporation are entitled to cumulative voting, if less than the entire board is to be removed, no director may be removed without cause if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire board of directors.

3.6 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

Regular meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting of the board, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such participating directors shall be deemed to be present in person at the meeting.

3.7 FIRST MEETINGS

The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

3.8 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice at such time as shall from time to time be determined by the board of directors. If any regular meeting day shall fall on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding full business day.

3.9 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board of directors, the president, any vice president, the secretary or any two directors.

The person or persons authorized to call special meetings of the board of directors may fix the time and place of the meetings. Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail, courier service or telegram, telecopy or other electronic or wireless means, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is by mail, such notice shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is by courier service, telegram, overnight mail, telecopy or other electronic or wireless means, such notice shall be deemed adequately delivered when the notice is transmitted at least twenty-four (24) hours prior to the time set for such meeting. If the notice is by telephone or by hand delivery, such notice shall be deemed adequately delivered when the notice is given at least twenty-four (24) hours prior to the time set for such meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.10 QUORUM

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.12 of these bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of the certificate of incorporation and applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the quorum for that meeting.

3.11 WAIVER OF NOTICE

Notice of a meeting need not be given to any director (i) who signs a waiver of notice, whether before or after the meeting, or (ii) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such directors. All such waivers shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

3.12 ADJOURNMENT

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting of the board to another time and place.

3.13 NOTICE OF ADJOURNMENT

Notice of the time and place of holding an adjourned meeting of the board need not be given unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.9 of these bylaws, to the directors who were not present at the time of the adjournment.

3.14 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board of directors.

3.15 FEES AND COMPENSATION OF DIRECTORS

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.15 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

3.16 APPROVAL OF LOANS TO OFFICERS

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or any of its subsidiaries, including any officer or employee who is a director of the corporation or any of its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing contained in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.17 SOLE DIRECTOR PROVIDED BY CERTIFICATE OF INCORPORATION

In the event only one director is required by these bylaws or the certificate of incorporation, then any reference herein to notices, waivers, consents, meetings or other actions by a majority or quorum of the directors shall be deemed to refer to such notice, waiver, etc., by such sole director, who shall have all the rights and duties and shall be entitled to exercise all of the powers and shall assume all the responsibilities otherwise herein described as given to the board of directors.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have and may exercise all the powers and authority of the board, but no such committee shall have the power or authority to (i) amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the following provisions of Article III of these bylaws: Section 3.6 (place of meetings; meetings by telephone), Section 3.8 (regular meetings), Section 3.9 (special meetings; notice), Section 3.10 (quorum), Section 3.11 (waiver of notice), Section 3.12 (adjournment), Section 3.13 (notice of adjournment) and Section 3.14 (board action by written consent without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

4.3 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

ARTICLE V

OFFICERS

5.1 OFFICERS

The Corporate Officers of the corporation shall be a president, a secretary and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents (however denominated), one or more assistant secretaries, one or more assistant treasurers and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

In addition to the Corporate Officers of the Company described above, there may also be such Administrative Officers of the corporation as may be designated and appointed from time to time by the president of the corporation in accordance with the provisions of Section 5.12 of these bylaws.

5.2 ELECTION OF OFFICERS

The Corporate Officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these bylaws, shall be chosen by the board of directors, subject to the rights, if any, of an officer under any contract of employment, and shall hold their respective offices for such terms as the board of directors may from time to time determine.

5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or may empower the president to appoint, such other Corporate Officers as the business of the corporation may require, each of whom shall hold office for such period, have such power and authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

The president may from time to time designate and appoint Administrative Officers of the corporation in accordance with the provisions of Section 5.12 of these bylaws.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of a Corporate Officer under any contract of employment, any Corporate Officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of a Corporate Officer chosen by the board of directors, by any Corporate Officer upon whom such power of removal may be conferred by the board of directors.

Any Corporate Officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the Corporate Officer is a party.

Any Administrative Officer designated and appointed by the president may be removed, either with or without cause, at any time by the president. Any Administrative Officer may resign at any time by giving written notice to the president or to the secretary of the corporation.

5.5 VACANCIES IN OFFICES

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

5.6 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise such other powers and perform such other duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction and control of the business and the officers of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He or she shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

5.8 VICE PRESIDENTS

In the absence or disability of the president, and if there is no chairman of the board, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of the board of directors, committees of directors and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He or she shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 CHIEF FINANCIAL OFFICER

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director for a purpose reasonably related to his position as a director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors. He or she shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his or her transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

5.11 ASSISTANT SECRETARY

The assistant secretary, if any, or, if there is more than one, the assistant secretaries in the order determined by the board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

5.12 ADMINISTRATIVE OFFICERS

In addition to the Corporate Officers of the corporation as provided in Section 5.1 of these bylaws and such subordinate Corporate Officers as may be appointed in accordance with Section 5.3 of these bylaws, there may also be such Administrative Officers of the corporation as may be designated and appointed from time to time by the president of the corporation. Administrative Officers shall perform such duties and have such powers as from time to time may be determined by the president or the board of directors in order to assist the Corporate Officers in the furtherance of their duties. In the performance of such duties and the exercise of such powers, however, such Administrative Officers shall have limited authority to act on behalf of the corporation as the board of directors shall establish, including but not limited to limitations on the dollar amount and on the scope of agreements or commitments that may be made by such Administrative Officers on behalf of the corporation, which limitations may not be exceeded by such individuals or altered by the president without further approval by the board of directors.

5.13 AUTHORITY AND DUTIES OF OFFICERS

In addition to the foregoing powers, authority and duties, all officers of the corporation shall respectively have such authority and powers and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware as the same now exists or may hereafter be amended, indemnify any person against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which such person was or is a party or is threatened to be made a party by reason of the fact that such person is or was a director or officer of the corporation. For purposes of this Section 6.1, a "director" or "officer" of the corporation shall mean any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

The corporation shall be required to indemnify a director or officer in connection with an action, suit, or proceeding (or part thereof) initiated by such director or officer only if the initiation of such action, suit, or proceeding (or part thereof) by the director or officer was authorized by the board of Directors of the corporation.

The corporation shall pay the expenses (including attorney's fees) incurred by a director or officer of the corporation entitled to indemnification hereunder in defending any action, suit or proceeding referred to in this Section 6.1 in advance of its final disposition; provided, however, that payment of expenses incurred by a director or officer of the corporation in advance of the final disposition of such action, suit or proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should ultimately be determined that the director or officer is not entitled to be indemnified under this Section 6.1 or otherwise.

The rights conferred on any person by this Article shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the corporation's certificate of incorporation, these bylaws, agreement, vote of the stockholders or disinterested directors or otherwise.

Any repeal or modification of the foregoing provisions of this Article shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware as the same now exists or may hereafter be amended, to indemnify any person (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding, in which such person was or is a party or is threatened to be made a party by reason of the fact that such person is or was an employee or agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or officer) shall mean any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 INSURANCE

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS

The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books and other records of its business and properties.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

7.2 INSPECTION BY DIRECTORS

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director.

7.3 ANNUAL STATEMENT TO STOCKHOLDERS

The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

7.4 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairman of the board, if any, the president, any vice president, the chief financial officer, the secretary or any assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent and exercise on behalf of this corporation all rights incident to any and all shares of the stock of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

7.5 CERTIFICATION AND INSPECTION OF BYLAWS

The original or a copy of these bylaws, as amended or otherwise altered to date, certified by the secretary, shall be kept at the corporation's principal executive office and shall be open to inspection by the stockholders of the corporation, at all reasonable times during office hours.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING

For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted and which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided by law.

If the board of directors does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the applicable resolution.

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED

The board of directors, except as otherwise provided in these bylaws, may authorize and empower any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such power and authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 STOCK CERTIFICATES; TRANSFER; PARTLY PAID SHARES

The shares of the corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and, upon request, every holder of uncertificated shares, shall be entitled to have a certificate signed by, or in the name of the corporation by, the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Certificates for shares shall be of such form and device as the board of directors may designate and shall state the name of the record holder of the shares represented thereby; its number; date of issuance; the number of shares for which it is issued; a summary statement or reference to the powers, designations, preferences or other special rights of such stock and the qualifications, limitations or restrictions of such preferences and/or rights, if any; a statement or summary of liens, if any; a conspicuous notice of restrictions upon transfer or registration of transfer, if any; a statement as to any applicable voting trust agreement; if the shares be assessable, or, if assessments are collectible by personal action, a plain statement of such facts.

Upon surrender to the secretary or transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.5 SPECIAL DESIGNATION ON CERTIFICATES

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.6 LOST CERTIFICATES

Except as provided in this Section 8.6, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require; the board may require indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

8.7 TRANSFER AGENTS AND REGISTRARS

The board of directors may appoint one or more transfer agents or transfer clerks, and one or more registrars, each of which shall be an incorporated bank or trust company — either domestic or foreign, who shall be appointed at such times and places as the requirements of the corporation may necessitate and the board of directors may designate.

8.8 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, as used in these bylaws, the singular number includes the plural, the plural number includes the singular, and the term “person” includes both an entity and a natural person.

ARTICLE IX

AMENDMENTS

The original or other bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

Whenever an amendment or new bylaw is adopted, it shall be copied in the book of bylaws with the original bylaws, in the appropriate place. If any bylaw is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted or the filing of the operative written consent(s) shall be stated in said book.

ARTICLE X

DISSOLUTION

If it should be deemed advisable in the judgment of the board of directors of the corporation that the corporation should be dissolved, the board, after the adoption of a resolution to that effect by a majority of the whole board at any meeting called for that purpose, shall cause notice to be mailed to each stockholder entitled to vote thereon of the adoption of the resolution and of a meeting of stockholders to take action upon the resolution.

At the meeting a vote shall be taken for and against the proposed dissolution. If a majority of the outstanding stock of the corporation entitled to vote thereon votes for the proposed dissolution, then a certificate stating that the dissolution has been authorized in accordance with the provisions of Section 275 of the General Corporation Law of Delaware and setting forth the names and residences of the directors and officers shall be executed, acknowledged, and filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such certificate's becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be dissolved.

Whenever all the stockholders entitled to vote on a dissolution consent in writing, either in person or by duly authorized attorney, to a dissolution, no meeting of directors or stockholders shall be necessary. The consent shall be filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such consent's becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be dissolved. If the consent is signed by an attorney, then the original power of attorney or a photocopy thereof shall be attached to and filed with the consent. The consent filed with the Secretary of State shall have attached to it the affidavit of the secretary or some other officer of the corporation stating that the consent has been signed by or on behalf of all the stockholders entitled to vote on a dissolution; in addition, there shall be attached to the consent a certification by the secretary or some other officer of the corporation setting forth the names and residences of the directors and officers of the corporation.

ARTICLE XI

CUSTODIAN

11.1 APPOINTMENT OF A CUSTODIAN IN CERTAIN CASES

The Court of Chancery, upon application of any stockholder, may appoint one or more persons to be custodians and, if the corporation is insolvent, to be receivers, of and for the corporation when:

(i) at any meeting held for the election of directors the stockholders are so divided that they have failed to elect successors to directors whose terms have expired or would have expired upon qualification of their successors; or

(ii) the business of the corporation is suffering or is threatened with irreparable injury because the directors are so divided respecting the management of the affairs of the corporation that the required vote for action by the board of directors cannot be obtained and the stockholders are unable to terminate this division; or

(iii) the corporation has abandoned its business and has failed within a reasonable time to take steps to dissolve, liquidate or distribute its assets.

11.2 DUTIES OF CUSTODIAN

The custodian shall have all the powers and title of a receiver appointed under Section 291 of the General Corporation Law of Delaware, but the authority of the custodian shall be to continue the business of the corporation and not to liquidate its affairs and distribute its assets, except when the Court of Chancery otherwise orders and except in cases arising under Sections 226(a)(3) or 352(a)(2) of the General Corporation Law of Delaware.

Effective September 28, 2007

Exhibit 10.21

SECOND AMENDED AND RESTATED

LOAN AND SECURITY AGREEMENT

by and between

Harmonic Inc., as Borrower

and

Silicon Valley Bank, as Lender

December 17, 2004

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This Second Amended and Restated Loan and Security Agreement (as amended, restated, or otherwise modified from time to time, this "***Agreement***"), dated as of December 17, 2004, is by and between **Silicon Valley Bank** ("***Bank***"), whose address is 3003 Tasman Drive, Santa Clara, California, 95054, and **Harmonic Inc.**, a Delaware corporation ("***Borrower***"), whose address is 549 Baltic Way, Sunnyvale, California 94089, and provides the terms on which Bank will lend to Borrower and Borrower will repay Bank. This Agreement amends and restates in its entirety that certain Amended and Restated Loan and Security Agreement, dated December 19, 2003. The parties hereto agree as follows:

1. Definitions; Accounting and Other Terms

Capitalized terms used herein shall have the meanings given to such terms in Section 13 of this Agreement. Accounting terms not defined in this Agreement will be construed according to GAAP. Calculations and determinations must be made following GAAP. The term "financial statements" includes the notes and schedules thereto. The terms "including" and "includes" always mean "including (or includes) without limitation," in this or any other Loan Document.

2. Loan And Terms Of Payment

2.1 Promise to Pay.

Borrower promises to pay Bank the unpaid principal amount of all Advances and interest on the unpaid principal amount of the Advances.

2.1.1 Advances.

(a) Bank will make Advances not exceeding the Committed Revolving Line *minus* (a) the outstanding principal balance of the Advances *minus* (b) the amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit). Amounts borrowed hereunder that remain available for borrowing under this Agreement may be repaid and reborrowed prior to the Maturity Date.

(b) To obtain an Advance, Borrower must notify Bank by facsimile or telephone by 12:00 noon Pacific Time on the Business Day the Advance is to be made. Borrower must promptly confirm the notification by delivering to Bank the Loan Payment/Advance Request Form attached as Exhibit B (the "***Payment/Advance Form***"). Bank will credit Advances to Borrower's deposit account. Bank may make Advances under this Agreement based on instructions from a Responsible Officer 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.

(c) The Committed Revolving Line shall terminate on the Maturity Date, and all Advances are immediately due and payable on the Maturity Date.

2.1.2 Letters of Credit.

(a) Bank will issue or have issued standby Letters of Credit for Borrower's account not exceeding the amount available under the Committed Revolving Line (each, a "***Letter of Credit***"). Each Letter of Credit will have an expiry date of no later than 180 days after the Maturity Date, but Borrower's reimbursement obligation will be secured by cash in an amount equal to 105% of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith on terms acceptable to Bank at any time after the Maturity Date if such Maturity Date is not extended by Bank or if an Event of Default occurs and continues. Borrower agrees to execute any further documentation in connection with the Letters of Credit as Bank may reasonably request.

(b) Prior to or simultaneously with the opening of each Letter of Credit, Borrower shall pay to Bank Bank's customary fees (subject to negotiation) in connection with the opening of a letter of credit (the "***Letter of Credit Fees***"). The Letter of Credit Fees shall be paid upon the opening of each Letter of Credit and upon each anniversary thereof, if required. In addition, Borrower shall pay to Bank, for its own account, any and all additional issuance, negotiation, processing, transfer or other fees to the extent and as and when required by the provisions of any application for Letters of Credit. All Letter of Credit Fees shall be part of the Obligations.

(c) If any Letter of Credit is drawn upon, such amount shall constitute an Advance but shall be immediately due and payable. If such amount is not paid immediately, then the full amount thereof shall accrue interest at the rate set forth in Section 2.4(a).

2.2 Equipment Advances.

(a) Through December 16, 2005 (the "***Equipment Availability End Date***"), Bank will make advances (each, an "***Equipment Advance***" and, collectively, "***Equipment Advances***") not exceeding the Committed Equipment Line. The Equipment Advances may only be used to purchase or refinance Equipment within 90 days of the invoice date, or, in the case of the initial advance, purchased on or after September 1, 2004.

(b) Interest accrues from the date of each Equipment Advance (each, an "***Equipment Advance Funding Date***") at the rate in Section 2.4(a). Each Equipment Advance is payable in 36 equal monthly installments of principal, plus accrued interest, beginning on the first of the month following the Equipment Advance Funding Date for such Equipment Advance and ending on the Equipment Maturity Date for such Equipment Advance. Equipment Advances when repaid may not be reborrowed.

(c) To obtain an Equipment Advance, Borrower must provide notice in the form of a Payment/Advance Form to Bank (the notice is irrevocable) by facsimile no later than 12:00 noon Pacific Time one Business Day before the day on which the Equipment Advance is to be made. The Payment/Advance Form must be signed by a Responsible Officer or designee and include a copy of the invoice for the Equipment being financed.

(d) The outstanding principal amount of term loans previously advanced by Bank to Borrower pursuant to that certain Loan and Security Agreement dated

March 28, 2003, as amended by that Amendment to Loan Documents dated July 17, 2003, as further amended by that certain Amendment to Loan Documents dated September 26, 2003, and Amended and Restated Loan and Security Agreement dated December 19, 2003 are set forth on Schedule A attached hereto (the "***Existing Equipment Debt***"). The Existing Equipment Debt shall, for all purposes hereof, be "Equipment Advances" hereunder and be governed by all the terms and conditions of this Agreement, except that the principal of said Existing Equipment Debt shall continue to be payable as set forth on Schedule A.

2.3 Overadvances.

If, at any time, Borrower's Obligations hereunder exceed the Committed Revolving Line, Borrower shall immediately pay Bank the excess.

2.4 Interest Rate, Payments.

(a) Advances. Advances accrue interest on the outstanding principal balance thereof at a per annum rate equal to the Prime Rate. Equipment Advances, including the Existing Equipment Debt, accrue interest on the outstanding principal balance thereof at a per annum rate equal to one-half percentage point (0.50%) above the Prime Rate. After an Event of Default has occurred, Obligations shall accrue interest at a rate per annum equal to two percent (2%) above the rate effective immediately before the Event of Default. The interest rate increases or decreases when the Prime Rate changes. Interest is computed on a 360 day year for the actual number of days elapsed.

(b) Payments. Interest due on the Advances and Equipment Advances is payable on the first of each month. Bank may debit any of Borrower's deposit accounts, including account number 0341964970, for principal and interest payments owing or any amounts Borrower owes Bank. Bank will notify Borrower when it debits Borrower's accounts. These debits are not a set-off. Payments received after 12:00 noon 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 is due the next Business Day and additional fees or interest accrue.

2.5 Fees.

Borrower will pay:

(a) Loan Fee. Fully earned, non-refundable loan fees in the amount of $20,000 for the Committed Revolving Line and in the amount of $4,800 for the Committed Equipment Line are due on or before the Closing Date. If, at any time, Borrower fails to maintain a minimum aggregate amount of $20,000,000 of unrestricted funds on deposit for 10 consecutive Business Days with SVB Asset Management and/or SVB Securities, Borrower shall pay an additional $30,000 fee for the Committed Revolving Line and an additional $7,200 fee for the Committed Equipment Line.

(b) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses) incurred through the date of this Agreement are payable upon demand, and Bank Expenses incurred after the date of this Agreement are payable within ten

(10) Business Days after delivery of invoice to Borrower.

3. Conditions Of Loans

3.1 Conditions Precedent to Initial Credit Extension.

Bank's obligation to make the initial Credit Extension is subject to the condition precedent that it receive the agreements, documents, and fees it requires.

3.2 Conditions Precedent to all Credit Extensions.

Bank's obligation to make each Credit Extension, including the initial Credit Extension, is subject to the following:

(a) timely receipt of any Payment/Advance Form; and

(b) the representations and warranties in Section 5 must be materially true on the date of the Payment/Advance Form and on the effective date of each Advance and no Event of Default may have occurred and be continuing, or result from such Advance. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties of Section 5 remain true in all material respects; provided, however, that those representations and warranties expressly referring to another date shall be true in all material respects as of such date only.

4. Creation Of Security Interest

4.1 Grant of Security Interest.

Borrower grants Bank a continuing security interest in all presently existing and later acquired Collateral to secure all Obligations and performance of each of Borrower's duties under the Loan Documents. Any security interest will be a first priority security interest in the Collateral. If this Agreement is terminated, Bank's lien and security interest in the Collateral will continue until Borrower fully satisfies its Obligations (other than inchoate indemnity obligations).

4.2 Authorization to File; Delivery of Additional Documentation.

Borrower authorizes Bank to file financing statements without notice to Borrower, with all appropriate jurisdictions, as Bank deems appropriate, in order to perfect or protect Bank's security interest in the Collateral. Borrower shall execute and deliver to Bank, at the request of Bank, all documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue perfected Bank's security interest in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

5. Representations And Warranties

Borrower represents and warrants as follows:

5.1 Due Organization; Organizational Structure; Authorization .

Borrower and each Subsidiary is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state 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 cause a Material Adverse Change.

Borrower has not changed its state of formation or organizational structure or type or any organizational number assigned by its jurisdiction of formation.

The execution, delivery and performance of the Loan Documents have been duly authorized, and do not conflict with Borrower's formation documents, nor constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound in which the default could reasonably be expected to cause a Material Adverse Change.

5.2 Places of Business; Location of Collateral .

Except as set forth in the Disclosure Letter, the Equipment and Inventory is not in the possession of any third party bailee (such as at a warehouse, but excluding Equipment or Inventory in the possession of third parties for demonstration or evaluation purposes, or otherwise in the ordinary course of business consistent with past practices). In the event that Borrower, after the date hereof, intends to store or otherwise deliver the Collateral to such a bailee, then Borrower may amend the Disclosure Letter so long as such new location is within the continental United States.

5.3 Collateral.

(a) Borrower has rights in the Collateral and its Intellectual Property sufficient to grant a security interest therein, free of Liens except Permitted Liens. All of Borrower's Deposit Accounts and any existing commercial tort claims are described on the Disclosure Letter. The Accounts are bona fide, existing obligations, and the service or property has been performed or delivered to the account debtor or its agent for immediate shipment to and unconditional acceptance by the account debtor. All Inventory is in all material respects of good and marketable quality, free from material defects. Borrower is the sole owner of the Intellectual Property, except for non-exclusive and exclusive licenses granted in the ordinary course of business. Each issued Patent owned by Borrower is valid and enforceable and no part of the Intellectual Property has been judged invalid or unenforceable, in whole or in part, and 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 could not reasonably be expected to cause a Material Adverse Change. None of the Equipment financed by Bank now is or will be affixed to any real property in such a manner, or with such intent, as to become a fixture.

(b) All statements made and all unpaid balances appearing in all invoices, instruments, and other documents evidencing the Accounts are and shall be true and correct. All such invoices, instruments, and other documents, and all of Borrower's Books are and shall be genuine and in all respects are what they purport to be. All sales and other transactions underlying or giving rise to each Account shall comply in all material respects with all applicable laws and governmental rules and regulations. To the best of Borrower's knowledge, all signatures and endorsements on all documents, instruments, and agreements relating to all Accounts are and shall be genuine, and all such documents, instruments, and agreements are and shall be legally enforceable in accordance with their terms.

5.4 Litigation.

Except as shown in the Disclosure Letter, there are no actions or proceedings pending or, to the knowledge of Borrower's Responsible Officers, threatened by or against Borrower or any Subsidiary in which a likely adverse decision could reasonably be expected to cause a Material Adverse Change.

5.5 No Material Adverse Change in Financial Statements .

All consolidated financial statements for Borrower, and any Subsidiary, 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 any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.6 Taxes.

As of the date hereof, and except as set forth on the Disclosure Letter, 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.

5.7 Solvency.

The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; the Borrower's remaining assets after the transactions contemplated herein are not unreasonably small in relation to its business; and Borrower is able to pay its debts (including trade debts) as they mature.

5.8 Existing Term Debt.

Schedule A accurately reflects the outstanding principal amount, payment amounts, and maturity dates with respect to the Existing Equipment Debt.

5.9 Regulatory Compliance.

Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to cause a Material Adverse Change. None of Borrower's or any Subsidiary's 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 Subsidiary has timely filed all required tax returns and paid, or made adequate provision to pay, all material taxes, except those being contested in good faith with adequate reserves under GAAP. Borrower and each Subsidiary has 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 its business as currently conducted, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

5.10 Subsidiaries.

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

5.11 Full Disclosure.

No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank (taken together with all such written certificates and written statements 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 and forecasted results).

6. Affirmative Covenants

Borrower will do all of the following for so long as Bank has an obligation to lend, or there are outstanding Obligations:

6.1 Government Compliance.

Subject to Section 7.3, Borrower will maintain its and all Subsidiaries' legal existence and good standing in its jurisdiction of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to cause a material adverse effect on Borrower's business or operations. Borrower will 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 effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change.

6.2 Financial Statements, Reports, Certificates.

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 45 days after the last day of each quarter, a company prepared consolidated and consolidating balance sheet and income statement covering Borrower's consolidated operations during the period certified by a Responsible Officer and in a form acceptable to Bank; (ii) as soon as available, but no later than 120 days after the last day of Borrower's fiscal year, audited consolidated and consolidating financial statements prepared under GAAP, consistently applied, together with an opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank; (iii) annual financial projections in form and substance commensurate with those provided to Borrower's board of directors or utilized by Borrower's executive management, in form and substance satisfactory to Bank; (iv) within 5 days of filing, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt and all reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission (the "***SEC***") (other than those reports on Form 10-K, 10-Q or 8-K (relating to certification) that are otherwise publicly available through the SEC's EDGAR system); (v) a prompt report of any claim, proceeding, litigation, or investigation in the future threatened or instituted against Borrower which would reasonably be expected to result in damages to Borrower of $500,000 or more, exclusive of litigation the potential liability in connection with which is fully insured against; and (vi) budgets, sales projections, operating plans or other financial information Bank reasonably requests.

(b) Within 45 days after the last day of each quarter, Borrower will deliver to Bank with the quarterly financial statements a Compliance Certificate.

(c) Borrower will allow Bank to audit Borrower's Collateral at Borrower's expense, and the charge therefor shall be $750 per person per day (or such higher amount as shall represent Bank's then current standard charge for the same), plus reasonable out-of-pocket expenses. In the event Borrower and Bank schedule and audit more than 10 days in advance, and Borrower seeks to reschedule the audit with less than 10 days written notice to Bank, then (without limiting any of Bank's rights and remedies) Borrower shall pay Bank a cancellation fee of $1,000 plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of cancellation. The results of audits will be satisfactory to Bank, and audits will be conducted no more often than once every year unless an Event of Default shall have occurred.

6.3 Inventory; Returns.

Borrower will keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its account debtors will follow Borrower's customary practices as they exist at execution of this Agreement. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims that occur after the occurrence and during the continuance of an Event of Default.

6.4 Collateral.

(a) Borrower will give Bank at least 30 days prior written notice before opening any additional place of business, changing its chief executive office, or moving any of the Equipment or Inventory (but excluding Equipment or Inventory in the possession of third parties for documentation or evaluation purposes, or otherwise in the ordinary course of business consistent with past practices) to a location other than Borrower's address set forth in the preamble hereof or in the Disclosure Letter, except that Borrower may maintain sales offices in the ordinary course of business at which not more than a total of $10,000 fair market value of Equipment is located.

(b) In the event that Borrower shall at any time after the date hereof have any commercial tort claims against others, which it is asserting or intends to assert, and in which the likely recovery exceeds $1,000,000, Borrower shall promptly notify Bank thereof in writing and provide Bank with such information regarding the same as Bank shall request (unless providing such information would waive Borrower's attorney-client privilege). Such notification to Bank shall constitute a grant of a security interest in the commercial tort claim and all proceeds thereof to Bank, and Borrower shall execute and deliver all such documents and take all such actions as Bank shall request in connection therewith.

6.5 Taxes; Pension Contributions.

Borrower will make, and cause each Subsidiary to make, timely payment of all material federal, state, and local taxes or assessments and will deliver to Bank, on demand, appropriate certificates attesting to the payment. Notwithstanding the foregoing, Borrower may defer payment of any contested taxes, provided that Borrower (a) in good faith contests its obligations 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, any such proceedings involving more than $500,000, and (c) posts bonds or takes other steps required to keep the contested taxes from becoming a lien upon any of the Collateral. Borrower has paid, and shall continue to pay all amounts necessary to fund all present and future pension, profit sharing, and deferred compensation plans in accordance with their terms, and Borrower has not and will not withdraw from participation in, permit partial or complete termination of, or permit 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.

6.6 Insurance.

Borrower will keep its business and the Collateral insured for risks and in amounts standard for Borrower's industry, and as Bank may reasonably request. Insurance policies will be in a form, with companies, and in amounts that are satisfactory to Bank in Bank's reasonable discretion. All property policies will have a lender's loss payable endorsement showing Bank as an additional loss payee and all liability policies will show the Bank as an additional insured and provide that the insurer must give Bank at least 20 days notice before canceling its policy. At Bank's request, Borrower will deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy will, at Bank's option if an Event of Default has occurred and is continuing, be payable to Bank on account of the Obligations. Bank shall release to Borrower, so long as no Event of Default is reasonably likely to occur as a result of such release by Bank, insurance proceeds with respect to Equipment which proceeds shall be utilized by Borrower for the replacement of the Equipment with respect to which the insurance proceeds were paid. Bank may require reasonable assurance that the insurance proceeds were utilized by Borrower for such purpose.

6.7 Financial Covenant.

At all times, Borrower shall have unrestricted cash and cash equivalents (net of Credit Extensions) of no less than $50,000,000.

6.8 Registration of Intellectual Property Rights.

Borrower will (a) protect, defend and maintain the validity and enforceability of the Intellectual Property and promptly advise Bank in writing of material infringements, (b) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent, (c) concurrently with the filing of any Patent or Trademark with the United States Patent and Trademark Office, any Copyright with the United States Copyright Office, or any similar office or agency in any other country or any political subdivision thereof, by either itself or through any agent, employee, licensee or designee, promptly inform Bank (if any such additional Patents, Trademarks, and/or Copyrights are not otherwise disclosed in Borrower's public filings with the SEC), and, upon request of Bank, execute and deliver any and all agreements, instruments, documents, and papers as Bank may request to evidence Bank's security interest in such Copyright, Patent or Trademark, including, with respect to Trademarks, the goodwill of Borrower, relating thereto or represented thereby.

6.9 Intentionally Omitted.

Intentionally Omitted.

6.10 Use of Proceeds.

Borrower shall use the Advances (including Advances constituting Letters of Credit) only for its general working capital requirements. Borrower shall use the Equipment Advances only to purchase Equipment.

6.11 Primary Accounts.

Borrower shall maintain its primary operating accounts with Bank.

6.12 Account Control Agreements.

Borrower shall provide five (5) Business Days written notice to Bank before establishing any new deposit account or securities account and shall deliver to Bank a Control Agreement within 30 days after the opening any such account.

6.13 Further Assurances.

Borrower will execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's security interest in the Collateral or to effect the purposes of this Agreement.

7. Negative Covenants

Borrower will not do any of the following without Bank's prior written consent for so long as Bank has an obligation to lend or there are any outstanding Obligations (other than inchoate indemnity obligations):

7.1 Dispositions.

Convey, sell, lease, transfer 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 of (a) Inventory in the ordinary course of business; (b) non-exclusive licenses and exclusive licenses limited to a geographic range or field of use and similar arrangements (such as source code escrow arrangements) for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; (c) worn-out, surplus, or obsolete Equipment in good faith in an arm's-length transaction; (d) Accounts where Adelphia Communications and/or its Subsidiaries are the account debtor(s) and claims in the bankruptcy proceedings of Adelphia Communications and/or its Subsidiaries related to such Accounts, such Accounts and claims in an aggregate amount not to exceed $3,000,000, to Satellite Asset Management or to such other purchaser in good faith in an arm's-length transaction; or (e) cash or cash equivalents so long as Borrower is in compliance with Section 6.7.

7.2 Changes in Business, Ownership, or State of Incorporation.

Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower or reasonably related thereto or have a Change in Control. Borrower will not, without at least 30 days prior written notice to Bank, change its state of incorporation.

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 result from such action during the term of this Agreement, (b) Borrower is the sole surviving entity, and (c) such transactions do not result in a decrease of more than 25% of Tangible Net Worth.

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, or allow any Lien on any of its property (including its Intellectual Property), or assign or convey any right to receive income, including the sale of any Accounts (except as permitted by Section 7.1), or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted hereunder.

7.6 Distributions; Investments.

Directly or indirectly acquire or own any Person, or make any Investment in any Person, other than Permitted Investments or as permitted by Section 7.3, or permit any of its Subsidiaries to do so. Pay any dividends (other than dividends payable solely in capital stock) or make any distribution or payment or redeem, retire or purchase any capital stock except for (a) repurchases of stock from former employees or directors of Borrower under the terms of applicable repurchase agreements, provided that no Event of Default has occurred, is continuing or would exist after giving effect to the repurchases, and (b) the conversion of any convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange therefore, and payments in cash for any fractional shares of such convertible securities.

7.7 Transactions with Affiliates.

Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower (other than Subsidiaries of Borrower) except for transactions that are 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.

7.8 Subordinated Debt.

Make or permit any payment on any Subordinated Debt, except under the terms of the Subordinated Debt, or amend any provision in any document relating to the Subordinated Debt without Bank's prior written consent.

7.9 Compliance.

Become an "investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940 or undertake as one of its important activities extending credit to purchase or carry margin stock, or use the proceeds of any Advance 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 effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change, or permit any of its Subsidiaries to do so.

8. Events Of Default

Any one of the following is an Event of Default:

8.1 Payment Default.

If Borrower fails to pay any of the Obligations within three (3) Business Days of their due date;

8.2 Covenant Default.

If Borrower does not perform any obligation in Section 6 or violates any covenant in Section 7;

8.3 Material Adverse Change.

If there (a) occurs a material adverse change in the business, operations, or condition (financial or otherwise) of the Borrower, (b) is a material impairment of the prospect of repayment of any portion of the Obligations or (c) is a material impairment of the value or priority of Bank's security interests in the Collateral;

8.4 Attachment.

If any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in 10 days, or if Borrower is enjoined, restrained, or prevented by court order from conducting a material part of its business or if a judgment or other claim becomes a Lien on a material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed against any of Borrower's assets by any government agency and not paid within 10 days after Borrower receives notice. These are not Events of Default if stayed or if a bond is posted pending contest by Borrower (but no Advances will be made during the cure period);

8.5 Insolvency.

If Borrower becomes insolvent or if Borrower begins an Insolvency Proceeding or an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within 45 days (but no Advances will be made before any Insolvency Proceeding is dismissed);

8.6 Other Agreements.

If there is a default in any agreement between Borrower or a third party that gives the third party the right to accelerate an Indebtedness exceeding $1,000,000 or that could cause or result in a Material Adverse Change;

8.7 Judgments.

If money judgments in excess of $1,000,000 are rendered against Borrower and unsatisfied and unstayed for 10 days (but no Advances will be made before the judgment is stayed or satisfied);

8.8 Misrepresentations.

If Borrower or any Person acting for Borrower makes any material misrepresentation or material misstatement now or later in any warranty or representation in this Agreement or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document; or

9. Bank's Rights And Remedies

9.1 Rights and Remedies.

When 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) Settle or adjust disputes and claims directly with account debtors for amounts, on terms and in any order that Bank considers advisable;

(d) Make any payments and do any acts it considers necessary or reasonable to protect its security interest in the Collateral. Borrower will assemble the Collateral if Bank requires and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(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) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, Mask Works, rights of use of any name, trade secrets, trade names, Trademarks, service marks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit; and

(g) Dispose of the Collateral according to the Code.

9.2 Power of Attorney.

Effective only when an Event of Default occurs and continues, Borrower irrevocably appoints Bank as its lawful attorney to: (a) endorse Borrower's name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against account debtors, (c) make, settle, and adjust all claims under Borrower's insurance policies; (d) settle and adjust disputes and claims about the Accounts directly with account debtors, for amounts and on terms Bank determines reasonable; and (e) transfer the Collateral into the name of Bank or a third party as the Code permits. Bank may exercise the power of attorney to sign Borrower's name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred. Bank's appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

9.3 Accounts Collection.

When an Event of Default occurs and continues, (a) Bank may notify any Person owing Borrower money of Bank's security interest in the funds and verify the amount of the Account, and (b) Borrower must collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the account debtor, with proper endorsements for deposit.

9.4 Bank Expenses.

If Borrower fails to pay any amount or furnish any required proof of payment to third persons, Bank may make all or part of the payment or obtain insurance policies required in Section 6.6, and take any action under the policies Bank deems prudent. Any amounts paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then applicable rate and secured by the Collateral. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.5 Bank's Liability for Collateral.

If Bank complies with reasonable banking practices and the Code, it is not liable for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 Remedies Cumulative.

Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements 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 Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay is not a waiver, election, or acquiescence. No waiver is effective unless signed by Bank and then is only effective for the specific instance and purpose for which it was given.

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 or demands by any party about this Agreement or any other related agreement must be in writing and be personally delivered or sent by an overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by facsimile to the addresses set forth at the beginning of this Agreement. A party may change its notice address by giving the other party written notice.

11. Choice Of Law , Venue And Jury Trial Waiver

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.

BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF ANY OF 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.

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 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, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits under this Agreement.

12.2 Indemnification.

Borrower will indemnify, defend and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses incurred, or paid by Bank from, following, or consequential to transactions between Bank and Borrower (including reasonable attorneys' fees and expenses), except with respect to (a) and (b) above, for obligations, demands, claims, liabilities or losses caused by Bank'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 Amendments in Writing; Integration.

All amendments to this Agreement must be in writing and signed by Borrower and Bank. This Agreement represents the entire agreement about this subject matter, and supersedes prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement merge into this Agreement and the Loan Documents.

12.6 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, are an original, and all taken together, constitute one Agreement.

12.7 Survival.

All covenants, representations and warranties made in this Agreement continue in full force while any Obligations remain outstanding. The obligations of Borrower in Section 12.2 to indemnify Bank will survive until all statutes of limitations for actions that may be brought against Bank have run.

12.8 Confidentiality.

In handling any confidential information, Bank will 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 in connection with their business with Borrower, (b) to prospective transferees or purchasers of any interest in the loans (provided, however, Bank shall use commercially reasonable efforts in obtaining such prospective transferee or purchasers agreement of the terms of this provision), (c) as required by law, regulation, subpoena, or other order, (d) as required in connection with Bank's examination or audit, and (e) as Bank considers appropriate exercising remedies under this Agreement. Confidential information includes information that is not either: (x) in the public domain or already in Bank's possession before disclosed to Bank by Borrower, or becomes part of the public domain after disclosure to Bank; or (y) disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

12.9 Attorneys' Fees, Costs and Expenses .

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

13. Definitions

In this Agreement:

"***Accounts***" are all existing and later arising accounts, contract rights, and other obligations owed Borrower in connection with its sale or lease of goods (including licensing software and other technology) or provision of services, all credit insurance, guaranties, other security and all merchandise returned or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"***Advance***" or "***Advances***" is a loan advance (or advances) under the Committed Revolving Line, including Advances used to issue or fund Letters of Credit.

"***Affiliate***" of a Person is a 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.

"***Bank Expenses***" are all audit fees and expenses and reasonable costs and expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including appeals or Insolvency Proceedings).

"***Borrower's Books***" are all Borrower's books and records including ledgers, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition and all computer programs or discs or any equipment containing the information.

"***Business Day***" is any day that is not a Saturday, Sunday or a day on which the Bank is closed.

"***Change in Control***" is a transaction in which any "***person***" or "***group***" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "***beneficial owner***" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of a sufficient number of shares of all classes of stock then outstanding of Borrower ordinarily entitled to vote in the election of directors, empowering such " ***person***" or "***group***" to elect a majority of the board of directors of Borrower, who did not have such power before such transaction.

"***Closing Date***" is the date of this Agreement.

"***Code***" is the Uniform Commercial Code in effect in any applicable jurisdiction.

"***Collateral***" is the property described on Exhibit A.

"***Committed Equipment Line***" is an Equipment Advance or Equipment Advances of up to the aggregate principal amount of $2,400,000.00.

"***Committed Revolving Line***" is an Advance or Advances of up to the aggregate principal amount of $10,000,000.

"***Compliance Certificate***" is a Compliance Certificate signed by a Responsible Officer in substantially the same form of Exhibit C attached hereto.

"***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 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 the guarantee or other support arrangement.

"***Control Agreement***" is an account control agreement, in form and substance satisfactory to Bank, executed and delivered by Borrower, Bank and all applicable depositary institutions, with respect to Borrower's deposit or operating accounts, or all applicable securities intermediaries, with respect to Borrower's securities accounts.

"***Copyrights***" are all copyright rights, applications or registrations and like protections in each work or authorship or derivative work, whether published or not (whether or not it is a trade secret) now or later existing, created, acquired or held.

"***Credit Extension***" is each Advance, Equipment Advance, Letter of Credit, the Existing Equipment Debt or any other extension of credit by Bank for Borrower's benefit.

"***Deposit Accounts***" means all present and future "deposit account" as defined in the California Uniform Commercial Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes, without limitation, all general and special bank accounts, demand accounts, checking accounts, savings accounts, and certificates of deposit.

"***Equipment***" is all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"***Equipment Advance***" is defined in Section 2.2(a).

"***Equipment Availability End Date***" is defined in Section 2.2(a).

"***Equipment Maturity Date***" is with respect to each Equipment Advance, the last day of the Repayment Period for such Equipment Advance, or if earlier, the date of acceleration of such Equipment Advance by Bank following an Event of Default.

"***Existing Equipment Debt***" is defined in Section 2.2(d).

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

"***Foreign Subsidiary***" is any Subsidiary of Borrower that is organized under the laws of any jurisdiction outside of the United States.

"***GAAP***" is generally accepted accounting principles.

"***General Intangibles***" means all present and future "general intangibles" as defined in the California Uniform Commercial Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes, without limitation, all Intellectual Property, payment intangibles, royalties, contract rights, goodwill, franchise agreements, purchase orders, customer lists, route lists, telephone numbers, domain names, claims, income tax refunds, security and other deposits, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort, or otherwise), insurance policies (including, without limitation, key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

"***Guarantor***" is any present or future guarantor of the Obligations.

"***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.

"***Insolvency Proceeding***" are proceedings 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***" is:

(a) Copyrights, Trademarks, Patents, and Mask Works including amendments, renewals, extensions, and all licenses or other rights to use and all license fees and royalties from the use;

(b) Any trade secrets and any intellectual property rights in computer software and computer software products now or later existing, created, acquired or held; and

(c) All design rights which may be available to Borrower now or later created, acquired or held.

"***Inventory***" is present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or later owned by or in the custody or possession, actual or constructive, of Borrower, including inventory temporarily out of its custody or possession or in transit and including returns on any accounts or other proceeds (including insurance proceeds) from the sale or disposition of any of the foregoing and any documents of title.

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

"***Investment Property***" means all present and future investment property, securities, stocks, bonds, debentures, debt securities, partnership interests, limited liability company interests, options, security entitlements, securities accounts, commodity contracts, commodity accounts, and all financial assets held in any securities account or otherwise, and all option and warrants to purchase any of the foregoing, wherever located, and all other securities of every kind, whether certificated or uncertificated.

"***Letter of Credit***" is defined in Section 2.1.2.

"***Letter of Credit Fees***" is defined in Section 2.1.2.

"***Lien***" is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

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

"***Mask Works***" are all mask works or similar rights available for the protection of semiconductor chips, now owned or later acquired.

"***Material Adverse Change***" is described in Section 8.3.

"***Maturity Date***" is December 16, 2005.

"***Obligations***" are debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, including cash management services, letters of credit and foreign exchange contracts, if any and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank.

"***Other Property***" means the following as defined in the California Uniform Commercial Code in effect on the date hereof with such additions to such term as may hereafter be made, and all rights relating thereto: all present and future "commercial tort claims" (including, without limitation, any commercial tort claims identified pursuant to Sections 5.3 or 6.4(b)), "documents", "instruments", "promissory notes", "chattel paper", "letters of credit", "letter-of-credit rights", "fixtures", "farm products", and "money"; and all other goods and personal property of every kind, tangible and intangible, whether or not governed by the California Uniform Commercial Code.

"***Patents***" are patents, patent applications and like protections, including improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"***Permitted Indebtedness***" is:

(a) Borrower's Obligations;

(b) Indebtedness existing on the Closing Date and shown on the Disclosure Letter;

(c) Subordinated Debt;

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

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

(f) 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 to exceed $10,000,000;

(g) Indebtedness secured by Permitted Liens;

(h) 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

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

"***Permitted Investments***" are:

(a) Investments shown on the Disclosure Letter and existing on the Closing Date;

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having rating of at least A-2 or P-2 from either Standard & Poor's Corporation or Moody's Investors Service, Inc., (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank, and (iv) future Investments in similar types of Investments pursuant to Borrower's investment policy (attached hereto as Schedule B) that has been formally adopted or otherwise approved by Borrower's Board of Directors;

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

(d) 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 action during the term of this Agreement, (ii) Borrower is in compliance with Section 7.3 hereof, and (iii) such transactions do not result in a decrease of more than 25% Tangible Net Worth;

(e) Investments consisting of (i) travel advances, employee relocation loans and other employee loans and advances in the ordinary course of business not to exceed $1,000,000 and (ii) non-cash loans to employees, officers or directors relating to the purchase of equity securities of Borrower pursuant to employee stock purchase plans or arrangements approved by Borrower's board of directors;

(f) 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;

(g) Investments consisting of notes receivable or, prepaid royalties and other credit obligations to customers and suppliers who are not Affiliates, in the ordinary course of business.

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

(i) Investments of Subsidiaries in or to other Subsidiaries or Borrower and Investments by Borrower in Subsidiaries; and

(j) 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 $5,000,000 in the aggregate in any fiscal year, and (ii) Borrower remains in compliance with Section 6.7 hereof.

"***Permitted Liens***" are:

(a) Liens existing on the Closing Date and shown on the Disclosure Letter or arising under this Agreement or other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's security interests;

(c) Purchase money Liens (i) on Equipment acquired or held by Borrower or its Subsidiaries 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 arising from judgments, decrees or attachments in circumstances not constituting an Event of Default;

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

(f) Liens in favor of other financial institutions arising in connection with Borrower's deposit accounts or securities accounts held at such institutions, provided that Bank has a first priority perfected security interest in such accounts and in the amounts and securities held therein;

(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) Leases or subleases granted in the ordinary course of Borrower's business, including in connection with Borrower's leased premises or leased property;

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

(j) Licenses or sublicenses granted in the ordinary course of Borrower's business and any interest or title of a licensor or under any license or sublicense;

(k) Other Liens not described above arising in the ordinary course of business and not having or not reasonably likely to have a material adverse effect on Borrower's and it Subsidiaries' business or operations taken as a whole or would reasonably be expected to cause or result in a Material Adverse Change; and

(l) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), 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 (i) 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, to acknowledge that the holder's Lien is subordinate to the Lien in favor of Bank and agree not to take any action to enforce its subordinate Lien so long as any of the Obligations remain outstanding, 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 association, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"***Prime Rate***" is Bank's most recently announced "prime rate," even if it is not Bank's lowest rate, and, in any event, shall not be less than four percent (4.00%) per annum.

"***Repayment Period***" as to each Equipment Advance, is 36 months.

"***Responsible Officer***" is each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"***Subordinated Debt***" is debt incurred by Borrower subordinated to Borrower's indebtedness owed to Bank and which is reflected in a written agreement in a manner and form acceptable to Bank and approved by Bank in writing.

"***Subsidiary***" is for any Person, or any other business entity of which more than 50% of the voting stock or other equity interests is owned or controlled, directly or indirectly, by the Person or one or more Affiliates of the Person.

"***Tangible Net Worth***" is, on any date, the consolidated total assets of Borrower and its Subsidiaries minus, (i) any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, Patents, trade and service marks and names, Copyrights and research and development expenses except prepaid expenses, and (c) reserves not already deducted from assets, and (ii) Total Liabilities.

"***Total Liabilities***" is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness and the current portion Subordinated Debt allowed to be paid, but excluding all other Subordinated Debt.

"***Trademarks***" are trademark and servicemark rights, registered or not, applications to register and registrations and like protections, and the entire goodwill of the business of Assignor connected with the trademarks.

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

[*The signature page follows.*]

In Witness Whereof, the parties have duly authorized and caused this Agreement to be executed as of the date first written above.

BORROWER:

Harmonic Inc.

By: /s/Robin N. Dickson

Printed Name: Robin N. Dickson

Title: CFO

BANK:

Silicon Valley Bank

By: /s/Arman Zand

Printed Name: Arman Zand

Title: VP

Disclosure Letter

See attached.

SCHEDULE A

Existing Equipment Debt

[To be inserted.]

SCHEDULE B

Cash Investment Policy

Exhibit A

The Collateral consists of all of Borrower’s right, title and interest in and to the following, whether now owned or hereafter existing:

all Accounts;

all Inventory;

all Equipment;

all Deposit Accounts;

all General Intangibles (including, without limitation, all Intellectual Property);

all Investment Property;

all Other Property;

and any and all claims, rights, and interests in any of the above, and all guaranties and security for any of the above, and all substitutions and replacements for, additions, accessions, attachments, accessories, and improvements to and proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties) of, any and all of the above; and

all Borrower’s Books relating to the foregoing.

Notwithstanding the foregoing, the security interest granted herein shall not extend to and the term “Collateral” shall not include (a) any license or contract rights to the extent (i) the granting of a security interest in it would be contrary to applicable law, or (ii) that such rights are nonassignable by their terms (but only to the extent such prohibition is enforceable under applicable law) without the consent of the licensor or other party (but only to the extent such consent has not been obtained); (b) that portion (if any) of the capital stock (or other equity interests) of such Foreign Subsidiary owned by Borrower that is in excess of 65% of the aggregate issued and outstanding capital stock (or other equity interests) of such Foreign Subsidiary; and (c) and any property that is subject to a Lien that is otherwise permitted pursuant to clause (c) of the definition of “Permitted Liens” and Bank agrees to execute any instruments or documents necessary to release its interest in such property and to effect the foregoing.

EXHIBIT B

LOAN PAYMENT/ADVANCE REQUEST FORM
DEADLINE FOR SAME DAY PROCESSING IS 12:00 NOON PACIFIC TIME

Fax To: ______________ Date: ______________

Borrower: ______________________

☐ **LOAN PAYMENT:**

From Account # ______________________ To Account # ______________________
(Name and Deposit Account #) (Loan Account #)

Principal $ ____________________ and/or Interest $____

Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on and as of the date hereof, but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

Authorized Signature:____________________ Phone Number:____________________

☐ **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 #) (Name and Deposit Account #)

Amount of Advance $ ____________________

Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on and as of the date of the requested Advance, but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

Authorized Signature:____________________ Phone Number: ____________________

OUTGOING WIRE REQUEST

Complete only if all or a portion of funds from the *loan advance* above are to be wired.
Deadline for same day processing is 12:00 noon, Pacific Time

Beneficiary Name: ____________________________________ Amount of Wire: $ ____________________________________
Beneficiary Bank: ____________________________________ Account Number: ____________________________________
City and State: ____________________________________
Beneficiary Bank Transit (ABA) #: __________ Beneficiary Bank Code (Swift, Short, 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 #	______________________

EXHIBIT C
COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
3003 Tasman Drive
Santa Clara, CA 95054

FROM: Harmonic Inc.
549 Baltic Way
Sunnyvale, CA 94089

The undersigned authorized officer of **Harmonic Inc.** ("Borrower") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending ___________ with all required covenants, except as noted below, and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date. Attached are the required documents supporting the certification. The undersigned officer certifies that such documents were prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied from one period to the next, except as explained in an accompanying letter or footnotes. The undersigned officer 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 Agreement, and that compliance is determined not just at the date this certificate is delivered.

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

Reporting Covenant	Required	Complies
Quarterly financial statements + CC	Quarterly within 45 days	Yes No
Annual financial statements (Audited)	FYE within 120 days	Yes No
Collateral Audit	Annual	Yes No

Financial Covenant	Required	Actual	Complies
Maintain at all times:			
Unrestricted cash and cash equivalents	$ 50,000,000		Yes No

Comments Regarding Exceptions: See Attached.

Sincerely,

Harmonic Inc.

____
Signature

____
Title

____
Date

BANK USE ONLY

Received by: ______________________
AUTHORIZED SIGNER

Date: ______________________

Verified: ______________________
AUTHORIZED SIGNER

Date: ______________________

Compliance Status: Yes No

CORPORATE BORROWING RESOLUTION

Borrower:	**Harmonic Inc.** **549 Baltic Way** **Sunnyvale, CA 94089**	**Bank:**	**Silicon Valley Bank** **3003 Tasman Drive** **Santa Clara, CA 95054-1191**

I, the Secretary or Assistant Secretary of Harmonic Inc. ("Borrower"), CERTIFY that Borrower is a corporation existing under the laws of the State of Delaware.

I certify that at a meeting of Borrower's Directors (or by other authorized corporate action) duly held the following resolutions were adopted.

It is resolved that **any one** of the following officers of Borrower, whose name, title and signature is below:

NAMES	POSITIONS	ACTUAL SIGNATURES

may act for Borrower and:

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.

Issue Warrants. Issue warrants for Borrower's stock.

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 think necessary to effectuate these Resolutions.

Further resolved that all acts authorized by these Resolutions and performed before they were adopted are ratified. These Resolutions remain in effect and Bank may rely on them until Bank receives written notice of their revocation.

I certify that the persons listed above are Borrower's officers with the titles and signatures shown following their names and that these resolutions have not been modified are currently effective.

CERTIFIED TO AND ATTESTED BY:

X ____

*Secretary or Assistant Secretary

X ____

*NOTE: In case the Secretary or other certifying officer is designated by the foregoing resolutions as one of the signing officers, this resolution should also be signed by a second Officer or Director of Borrower.

Exhibit 10.29

AMENDMENT NO. 4
TO
SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS AMENDMENT NO. 4 to Second Amended and Restated Loan and Security Agreement (this " **Amendment**") is entered as of the 12th day of March, 2008, by and between Silicon Valley Bank ("**Bank**") and Harmonic, Inc., a Delaware corporation ("**Borrower**") whose address is 549 Baltic Way, Sunnyvale, California 94089.

Recitals

A. Bank and Borrower have entered into that certain Second Amended and Restated Loan and Security Agreement dated as of December 17, 2004, as amended by that certain First Amendment to Second Amended and Restated Loan and Security Agreement dated December 16, 2005, that certain Amendment No. 2 to Second Amended and Restated Loan and Security Agreement dated December 15, 2006 and as amended by that certain Amendment No. 3 to Second Amended and Restated Loan and Security Agreement dated March 15, 2007 (as may be further amended, modified, supplemented or restated, the " **Loan Agreement**").

B. Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

C. Borrower has requested that Bank amend the Loan Agreement to (i) extend the maturity date, (ii) decrease the amount available to be borrowed under the Committed Revolving Line and (iii) make certain other revisions to the Loan Agreement as more fully set forth herein.

D. Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

Agreement

Now, Therefore, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

2. Amendments to Loan Agreement.

2.1 Collateral. The Loan Agreement is hereby amended (i) by deleting Section 4.1 in its entirety and replacing it with the words "4.1 [Reserved]", (ii) by deleting Exhibit A and replacing it with the words "Exhibit A [Reserved]" and (iii) by making conforming changes throughout the Loan Agreement to remove any references to 'Collateral' wherever they appear therein, except that the obligation to cash collateralize Letters of Credit under Sections 2.1.2 or 9.1 of the Loan Agreement shall remain in effect.

2.2 Section 2.1.1 (Advances). Section 2.1.1(a) is amended in its entirety and replaced by the following:

(a) Bank will make Advances not exceeding the Committed Revolving Line *minus* (i) the amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit) plus an amount equal to the Letter of Credit Reserve, *minus* (ii) the FX Reserve, *minus* (iii) any amounts used for Cash Management Services, and *minus* (iv) the outstanding principal balance of any Advances.

2.3 Section 2.1.2 (Letters of Credit). Section 2.1.2(a) is amended and restated in its entirety and replaced with the following:

(a) Bank will issue or have issued standby Letters of Credit for Borrower's account in an aggregate amount not to exceed [(x)] $10,000,000 [*minus* (y) the FX Reserve *minus* (z) any amounts used for Cash Management Services] (each, a "Letter of Credit"). Each Letter of Credit will have an expiry date of no later than 180 days after the Maturity Date, but Borrower's reimbursement obligation will be secured by cash in an amount equal to 105% of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith on terms acceptable to Bank at any time after the Maturity Date if such Maturity Date is not extended by Bank or if an Event of Default occurs and continues. Borrower agrees to execute any further documentation in connection with the Letters of Credit as Bank may reasonably request.

2.4 Foreign Exchange Sublimit. A new Section 2.1.2 is added as follows:

2.1.2 Foreign Exchange Sublimit. As part of the Committed 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 in a maximum aggregate amount equal to [One Million Dollars ($1,000,000)] (the "***FX Reserve***"). The aggregate amount of FX Forward Contracts at any one time may not exceed ten (10) times the amount of the FX Reserve. The amount otherwise available for Credit Extensions under the Committed Revolving Line shall be reduced by an amount equal to ten percent (10%) of each outstanding FX Forward Contract (the "***FX Reduction Amount***"). Any amounts needed to fully reimburse Bank will be treated as Advances under the Committed Revolving Line and will accrue interest at the interest rate applicable to Advances.

2.5 Cash Management Services Sublimit. A new Section 2.1.3 is added as follows:

2.1.3 Cash Management Services Sublimit. Borrower may use up to [Ten Million Dollars ($10,000,000)] of the Committed 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***"). Any amounts Bank pays on behalf of Borrower for any Cash Management Services will be treated as Advances under the Committed Revolving Line and will accrue interest at the interest rate applicable to Advances.

2.6 Section 2.3 (Overadvances). Section 2.3 is amended and restated in its entirety and replaced with the following:

2.3 Overadvances. If, at any time, the sum of (a) the outstanding principal amount of any Advances (including any amounts used for Cash Management Services), plus (b) the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve), plus (c) the FX Reduction Amount exceeds the Committed Revolving Line, Borrower shall immediately pay to Bank in cash such excess.

2.7 Section 2.5 (**Fees**). Section 2.5(a) is amended and restated in its entirety and replaced with the following:

(a) Committed Revolving Line Fee. If, at any time, Borrower fails to maintain a minimum aggregate amount of $30,000,000 of unrestricted funds on deposit for 10 consecutive Business Days with SVB Asset Management and/or SVB Securities, Borrower shall pay an additional $20,000 fee for the Committed Revolving Line.

2.8 Section 6.7 (Financial Covenant). Section 6.7 is amended and restated in its entirety and replaced with the following:

At all times, Borrower shall have unrestricted cash and cash equivalents (net of Credit Extensions) of not less than $40,000,000.

2.9 Section 9.1 (Rights and Remedies). New Sections 9.1(h) and 9.1(i) are added as follows:

(h) demand that Borrower (i) deposits cash with Bank in an amount equal to the aggregate amount of any Letters of Credit remaining undrawn, 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;

(i) terminate any FX Forward Contracts.

2.10 Section 13 (**Definitions**). The following terms and their definition set forth in **Section 13.1** are amended in their entirety and replaced with the following:

"***Business Day***" is any day other than 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 an FX Forward Contract, then the term "Business Day" shall mean a day on which dealings are carried on in the country of settlement of the foreign (i.e., non-Dollar) currency.

"***Committed Revolving Line***" is an Advance or Advances in an aggregate amount of up to $10,000,000.

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

"***Maturity Date***" is March 4, 2009.

2.11 Section 13 (Definitions). The following terms and their definitions are added to Section 13.1 in their alphabetically appropriate position:

"***Cash Management Services***" is defined in Section 2.1.3.

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

"***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 2.1.2.

"***FX Reduction Amount***" is defined in Section 2.1.2.

"***FX Reserve***" is defined in Section 2.1.2.

"***Settlement Date***" is defined in Section 2.1.2.

2.12 Exhibit C. Exhibit C to the Loan Agreement is replaced in its entirety by Exhibit A hereto.

3. Limitation of Amendments.

3.1 The amendments set forth in **Section 2**, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

3.2 This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

4. Representations and Warranties. To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

4.1 Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

4.2 Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

4.3 The organizational documents of Borrower delivered to Bank on December 17, 2004 remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

4.4 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

4.5 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

4.6 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. Counterparts. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

6. Effectiveness. This Amendment shall be deemed effective as of March 5, 2008 upon (a) the due execution and delivery to Bank of this Amendment by each party hereto and (b) Borrower's payment to

Bank of all Bank Expenses (including all reasonable attorneys’ fees and reasonable expenses) incurred through the date of this Amendment.

[Signature page follows.]

In Witness Whereof, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

BANK	**BORROWER**
Silicon Valley Bank	Harmonic, Inc.
By: /s/ Nick Tsiagkas	By: **/s/Patrick J. Harshman**
Name: Nick Tsiagkas	Name: Patrick J. Harshman
Title: Relationship Manager	Title: President & CEO

EXHIBIT A

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
3003 Tasman Drive
Santa Clara, CA 95054

FROM: HARMONIC INC.
549 Baltic Way
Sunnyvale, CA 94089

The undersigned authorized officer of **Harmonic Inc.** ("Borrower") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _________ with all required covenants, except as noted below, and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date. Attached are the required documents supporting the certification. The undersigned officer certifies that such documents were prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied from one period to the next, except as explained in an accompanying letter or footnotes. The undersigned officer 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 Agreement, and that compliance is determined not just at the date this certificate is delivered.

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

Reporting Covenant	Required		Complies	
Quarterly financial statements + CC	Quarterly within 45 days		Yes	No
Annual financial statements (Audited)	FYE within 120 days		Yes	No
Financial Covenant	Required	Actual	Complies	
Maintain at all times:				
Unrestricted cash and cash equivalents	$40,000,000		Yes	No

Comments Regarding Exceptions: See Attached.

Sincerely,

HARMONIC INC.

____
Signature

____
Title

____
Date

BANK USE ONLY	
Received by: ______________________	
AUTHORIZED SIGNER	
Date: ______________________	
Verified: ______________________	
AUTHORIZED SIGNER	
Date: ______________________	
Compliance Status:	Yes No

Exhibit 21.1

Harmonic Inc. and Subsidiaries
Subsidiaries of the Registrant

The following table shows certain information with respect to the active subsidiaries of the Company as of December 31, 2007:

Name	State or Other Jurisdiction of Incorporation	Percent of Voting Securities Owned by Harmonic
Harmonic (Asia Pacific) Limited.	Hong Kong	100%
Harmonic Europe S.A.S.	France	100%
Harmonic Germany GmbH	Germany	100%
Harmonic India Private Limited	India	100%
Harmonic International Inc.	U.S.A.	100%
Harmonic International Limited	Bermuda	100%
Harmonic Spain SL	Spain	100%
Harmonic Technologies, Inc.	U.S.A.	100%
Harmonic Technologies (HK) Limited	Hong Kong	100%
Harmonic (UK) Limited	United Kingdom	100%
Harmonic Video Systems Ltd.	Israel	100%

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-105873, 333-91464, 333-84720, 333-59248, 333-43160, 333-86649, 333-65051, 333-44265, 333-136425, 333-116467, 333-38025 and 333-140935) and Form S-3 (No. 333-147719, 333-141603, 333-43903, 333-44748, 333-74599, 333-84430 and 333-123823) of Harmonic Inc. of our report dated March 17, 2008, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

San Jose, California

March 17, 2008

Exhibit 31.1

HARMONIC INC.
CERTIFICATION

I, Patrick J. Harshman, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 officers 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: March 17, 2008

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

Exhibit 31.2

HARMONIC INC.
CERTIFICATION

I, Robin N. Dickson, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 officers 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: March 17, 2008

By: /s/Robin N. Dickson
Robin N. Dickson
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 annual report of the Company on Form 10-K for the fiscal year ended December 31, 2007, 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 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: March 17, 2008

/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, Robin N. Dickson, 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 annual report of the Company on Form 10-K for the fiscal year ended December 31, 2007, 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 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: March 17, 2008

/s/ Robin N. Dickson

Robin N. Dickson

Chief Financial Officer

(Principal Financial Officer)