



First Quarter 2016 Earnings Conference Call

May 10, 2016

Patrick Harshman, President & CEO

Hal Covert, CFO

Forward Looking Statements



During the course of this presentation, we will provide projections and other forward looking statements regarding future events or the future financial performance of Harmonic, including expectations concerning our business strategy for 2016 and beyond, and our Q2 and full year 2016 financial outlook. Such statements are only current expectations and actual events or results may differ materially. We refer you to Harmonic's filings with the SEC, particularly our most recent Reports on Form 10-K, Form 10-Q and Form 8-K. These documents identify important risk factors that could cause actual results to differ materially from our projections or other forward looking statements. We will also present financial metrics determined on a "non-GAAP" basis. These items, together with the corresponding GAAP numbers and a reconciliation to GAAP, are contained in this presentation and the related earnings press release on our website at www.harmonicinc.com.

Q1 2016 Results Summary



- Bookings \$110M
 - Harmonic \$105M, up 4% sequentially
 - Thomson \$5M (March stub period)
 - Increased mix of software, services and CCAP
 - Record \$180M backlog and deferred revenue
- Non-GAAP Revenue \$82M
 - Down 5% sequentially
 - Revenue recognition delays on software and services
- Non-GAAP Gross Margin 51%
 - Down 4% sequentially
- EPS \$(0.11)

Video Business Update



- Improving demand trends
 - Traditional Pay TV and live OTT
 - Positive customer business trends
- Continuing shift to software
 - Over 20,000 VOS 1.0 channels deployed
 - Launched VOS 2.0 Cloud and SaaS offerings
- Thomson integration proceeding well
 - Closed February 29
 - Synergies on track
 - Positive customer response to scale and new innovations



2016 Growth and Expense Plan On-Track

Cable Edge Business Update



- CableOS program on track
 - Passed key internal and customer 3.1 CCAP milestones
 - Well positioned to address new distributed architectures
 - First revenue shipments in second half of 2016
- Steady legacy EdgeQAM demand
 - New hardware chassis deployments for cable video applications



Cable OS[®]

2016 Strategic Plan On Track

- Revenue of \$5M slipped out of Q1
 - Impacted by customer consolidation, greater international exposure
 - Majority of this revenue to be recorded in Q2
- Software shift impacting near-term revenue
 - Some software revenue targeted for Q2 and Q3 will be recognized ratably, instead of upon shipment
 - Revenue recognition processes established by end of Q3
- Anticipate recognizing revenue in Q4 for software shipments impacted in Q1 through Q3
- Stopped shipping Thomson products in third week of March

Q1 2016 Financial Highlights



\$ Millions (except GM & EPS)	Q1 2016	Q4 2015	Q1 2015	Q1 / Q4 Change	Q1 Y/Y Change
Total Net Revenue – Non-GAAP	\$82.5	\$86.6	\$104.0	-5%	-21%
- Video Revenue	\$65.6	\$72.4	\$69.3	-9%	-5%
- Cable Edge Revenue	\$16.8	\$14.2	\$34.7	18%	-52%
Gross Margin % – Non-GAAP	51.1%	55.0%	53.9%	-3.9%	-2.8%
Operating Expense – Non-GAAP	\$50.5	\$46.7	\$49.9	8%	1%
Operating (Loss)Income – Non-GAAP	(\$8.4)	\$1.0	\$6.1	-\$9.4	-\$14.5
EPS – Non-GAAP	-\$0.11	\$0.01	\$0.05	-\$0.12	-\$0.16
Bookings	\$109.6	\$101.0	\$97.3	9%	13%
Book to Bill	1.3	1.2	0.9	8%	44%

Q1 2016 Balance Sheet Highlights



	\$ Millions	
Cash	\$76.2	
Accounts Receivable	\$95.5	106 days
Inventories	\$42.4	94 days
Cash From Operations	-\$5.4	
Backlog and Deferred- Non-GAAP	\$180	

Q2 2016 Financial Guidance



\$ Millions, (except EPS)	Q2 2016
Non-GAAP Revenue	\$103 - \$108
Non-GAAP Gross Margin	50% - 51%
Non-GAAP Operating Expenses	\$55 - \$56
Non-GAAP Operating Loss	\$(3) - \$(1)
Non-GAAP EPS	\$(0.05) - \$(0.02)
Non-GAAP Tax Rate	15%
Shares, millions	77.5
See total company reconciliation of GAAP to Non-GAAP	

2016 Financial Guidance



\$ Millions, (except EPS)	2016
Non-GAAP Revenue	\$400 - \$415
Non-GAAP Gross Margin	~55%
Non-GAAP Operating Expenses	\$208 - \$212
Non-GAAP Operating Income	\$14 - \$16
Non-GAAP EPS	\$0.09 - \$0.12
Non-GAAP Tax Rate	15%
Shares, millions	80
Cash at year end	\$50-\$60
See total company reconciliation of GAAP to Non-GAAP	

Positioned to Achieve 2016 Strategic Priorities

Video Business

- Lead in software and OTT market transitions
- Integrate TVN to extend global market leadership and drive earnings accretion

Cable Edge Business

- Enter DOCSIS 3.1 CCAP market via new CableOS platform
- Secure multiple CableOS Tier 1 wins

Corporate

- Deliver revenue, gross margin and earnings growth
- Exit the year with double-digit operating margin



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Use of Non-GAAP Financial Measures



In establishing operating budgets, managing its business performance, and setting internal measurement targets, the Company excludes a number of items required by GAAP. Management believes that these accounting charges and credits, most of which are non-cash or non-recurring in nature, are not useful in managing its operations and business. Historically, the Company has also publicly presented these supplemental non-GAAP measures in order to assist the investment community to see the Company “through the eyes of management,” and thereby enhance understanding of its operating performance. The non-GAAP measures presented here are gross profit, operating expenses, income (loss) from operations and net income (loss) (including those amounts as a percentage of revenue), and net income (loss) per diluted share. The presentation of non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP, and is not necessarily comparable to non-GAAP results published by other companies. A reconciliation of the historical and forward looking non-GAAP financial measures discussed in this presentation to the most directly comparable historical and forward looking GAAP financial measures is included with the financial information contained in this presentation. The non-GAAP adjustments described below have historically been excluded from our GAAP financial measures. These adjustments are restructuring and related charges, acquisition transaction costs, and non-cash items, such as stock-based compensation expense, amortization of intangibles, impairment of long-term investment, non-cash interest expenses on convertible debt and adjustments that normalize the tax rate.

Q1 2016 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Three months ended					
	April 1, 2016					
	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Interest (expense) income, net	Net loss
GAAP	\$ 81,832	\$ 40,654	\$ 61,410	\$ (20,756)	\$ (2,421)	\$ (25,180)
Acquisition accounting impact related to TVN deferred revenue	623	623	—	623	—	623
Acquisition accounting impact related to TVN fair value of inventory	—	189	—	189	—	189
Stock-based compensation in cost of revenue	—	227	—	227	—	227
Stock-based compensation in research and development	—	—	(969)	969	—	969
Stock-based compensation in selling, general and administrative	—	—	(1,898)	1,898	—	1,898
Amortization of intangibles	—	418	(2,365)	2,783	—	2,783
Restructuring and related charges	—	(29)	(2,612)	2,583	—	2,583
TVN acquisition-and integration-related costs	—	58	(3,038)	3,096	—	3,096
Loss on investment	—	—	—	—	—	1,476
Non-cash interest expenses related to convertible notes	—	—	—	—	1,187	1,187
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	1,963
Non-GAAP	\$ 82,455	\$ 42,140	\$ 50,528	\$ (8,388)	\$ (1,234)	\$ (8,186)
		<i>As a % of revenue (GAAP)</i>				
		49.7%	75.0%	(25.4)%	(3.0)%	(30.8)%
		<i>As a % of revenue (Non-GAAP)</i>				
		51.1%	61.3%	(10.2)%	(1.5)%	(9.9)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.33)
Diluted net loss per share-Non-GAAP						\$ (0.11)
Shares used to compute diluted net loss per share:						
GAAP						76,996
Non-GAAP						76,996

Q4 2015 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Three months ended					
	December 31, 2015					
	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Interest (expense) income, net	Net Income (Loss)
GAAP	\$ 86,603	\$ 47,068	\$ 53,429	\$ (6,361)	\$ (435)	\$ (7,199)
Stock-based compensation in cost of revenue	—	479	—	479	—	479
Stock-based compensation in research and development	—	—	(1,186)	1,186	—	1,186
Stock-based compensation in selling, general and administrative	—	—	(2,072)	2,072	—	2,072
Amortization of intangibles	—	86	(1,445)	1,531	—	1,531
Restructuring and asset impairment charges	—	—	(746)	746	—	746
TVN transaction costs	—	—	(1,309)	1,309	—	1,309
Non-cash interest expenses related to convertible note	—	—	—	—	184	184
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	266
Non-GAAP	<u>\$ 86,603</u>	<u>\$ 47,633</u>	<u>\$ 46,671</u>	<u>\$ 962</u>	<u>\$ (251)</u>	<u>\$ 574</u>
		<i>As a % of revenue (GAAP)</i>	<i>61.7%</i>	<i>(7.3)%</i>	<i>(0.5)%</i>	<i>(8.3)%</i>
		<i>As a % of revenue (Non-GAAP)</i>	<i>53.9%</i>	<i>1.1 %</i>	<i>(0.3)%</i>	<i>0.7 %</i>
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP						<u>\$ (0.08)</u>
Diluted net income per share-Non-GAAP						<u>\$ 0.01</u>
Shares used to compute diluted net income (loss) per share:						
GAAP						<u>84,932</u>
Non-GAAP						<u>85,629</u>

Q1 2015 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



Three months ended						
April 3, 2015						
	Revenue	Gross Profit	Total Operating Expense	Income from Operations	Interest (expense) income, net	Net Income (Loss)
GAAP	\$ 104,016	\$ 55,028	\$ 55,015	\$ 13	\$ 55	\$ (2,657)
Stock-based compensation in cost of revenue	—	528	—	528	—	528
Stock-based compensation in research and development	—	—	(1,148)	1,148	—	1,148
Stock-based compensation in selling, general and administrative	—	—	(2,458)	2,458	—	2,458
Amortization of intangibles	—	461	(1,446)	1,907	—	1,907
Restructuring and asset impairment charges	—	—	(44)	44	—	44
Loss on impairment of long-term investment	—	—	—	—	—	2,505
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(1,472)
Non-GAAP	<u>\$ 104,016</u>	<u>\$ 56,017</u>	<u>\$ 49,919</u>	<u>\$ 6,098</u>	<u>\$ 55</u>	<u>\$ 4,461</u>
		<i>As a % of revenue (GAAP)</i>	<i>52.9%</i>	<i>52.9%</i>	<i>0.01 %</i>	<i>0.1 %</i>
		<i>As a % of revenue (Non-GAAP)</i>	<i>53.9%</i>	<i>48.0%</i>	<i>5.9 %</i>	<i>0.1 %</i>
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP						<u>\$ (0.03)</u>
Diluted net income per share-Non-GAAP						<u>\$ 0.05</u>
Shares used to compute diluted net income (loss) per share:						
GAAP						<u>88,655</u>
Non-GAAP						<u>90,100</u>

Q2 2016 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS)



	Q2 2016 Guidance					
	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Interest (expense) income, net	Net loss
GAAP	\$102 to \$107	\$49 to \$52	\$64 to \$65	\$(14.5) to \$(12.5)	\$(2.5)	\$(15) to \$(13)
Acquisition accounting impact related to TVN deferred revenue	0.8	0.8	—	0.8	—	0.8
Stock-based compensation expense	—	0.4	(2.7)	3.1	—	3.1
Amortization of intangibles	—	1.3	(4.3)	5.6	—	5.6
Restructuring and related charges and TVN acquisition/integration costs	—	—	(2.0)	2.0	—	2.0
Non-cash interest expense related to convertible notes	—	—	—	—	1.2	1.2
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(2.0)
	0.8	2.5	(9.0)	11.5	1.2	10.7
Non-GAAP	\$103 to \$108	\$52 to \$55	\$55 to \$56	\$(3) to \$(1)	\$(1.3)	\$(4) to \$(2)
<i>As a % of revenue (GAAP)</i>		48% to 49%	approx. 64%	(14)% to (12)%	approx. (1)%	(15)% to (13)%
<i>As a % of revenue (Non-GAAP)</i>		50% to 51%	approx. 52%	(3)% to (1)%	approx. (1)%	(4)% to (2)%
Diluted loss per share:						
Diluted net loss per share-GAAP						<u>\$(0.19) to \$(0.16)</u>
Diluted net loss per share-Non-GAAP						<u>\$(0.05) to \$(0.02)</u>
Shares used to compute diluted loss per share:						
GAAP and Non-GAAP						<u>77.5</u>

2016 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS)



	2016 Financial Guidance					
	Revenue	Gross Profit	Total Operating Expense	Income(loss) from Operations	Interest (expense) income, net	Net loss
GAAP	\$398 to \$413	\$213 to \$219	\$260 to \$264	\$(47) to \$(45)	\$(10)	\$(49) to \$(47)
Acquisition accounting impact related to TVN deferred revenue	2.2	2.2	—	2.2	—	2.2
Acquisition accounting impact related to TVN fair value of inventory	—	0.2	—	0.2	—	0.2
Stock-based compensation expense	—	2.7	(13.7)	16.4	—	16.4
Amortization of intangibles	—	4.3	(11.1)	15.4	—	15.4
Restructuring and related charges and TVN acquisition/integration costs	—	0.1	(26.8)	26.9	—	26.9
Non-cash interest expense related to convertible notes	—	—	—	—	5.0	5.0
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(10.0)
	2.2	9.5	(51.6)	61.1	5.0	56.1
Non-GAAP	\$400 to \$415	\$222 to \$228	\$208 to \$212	\$14 to \$16	\$(5)	\$7 to \$9
<i>As a % of revenue (GAAP)</i>		<i>approx. 53%</i>	<i>approx. 64%</i>	<i>approx. (11)%</i>	<i>approx. (2)%</i>	<i>approx. (12)%</i>
<i>As a % of revenue (Non-GAAP)</i>		<i>approx. 55%</i>	<i>approx. 52%</i>	<i>approx. 4%</i>	<i>approx. (1)%</i>	<i>approx. 2%</i>
Diluted income (loss) per share:						
Diluted net loss per share-GAAP						<u>\$(0.62) to \$(0.59)</u>
Diluted net income per share-Non-GAAP						<u>\$0.09 to \$0.12</u>
Shares used to compute diluted income (loss) per share:						
GAAP						<u>79.0</u>
Non-GAAP						<u>80.0</u>