



Fourth Quarter & Year- End 2012 Earnings Conference Call

January 29, 2012

Patrick Harshman, President & CEO
Carolyn Aver, Chief Financial Officer



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 2013 business strategy and our Q1 2013 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 and Form 10-Q. 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.



▶ Revenue \$133.4M

- 62% international, 38% US
- 35% broadcast and media, 45% cable, 20% satellite and telco
- In-line with guidance range

▶ Bookings \$127.6M

- Sequentially stronger international, weaker US demand
- No material “budget flush”
- Book-to-bill for the year 1:1

▶ Operating performance

- Gross margin 53% (non-GAAP)
- EPS \$0.09 (non-GAAP)
- Cash increased \$9.2M (net of \$8.3M buyback of 1.86 million shares)



- ▶ **Strong demand for software products and licenses**
 - New media transcoding and workflow
 - EdgeQAM capacity expansion
- ▶ **Continued multiscreen and OTT momentum**
 - Positive customer response to new ProMedia Express product
 - Key wins in broadcast and media, cable, telco
- ▶ **Growing demand from emerging market customers**
 - China, India, Latin America, Southeast Asia
 - Production and Playout momentum
- ▶ **Positive customer reaction to CCAP platform launch**
 - Successful testing ongoing in labs of five tier 1 customers



▶ **Areas of revenue growth**

- Asia Pacific, Caribbean and Latin America
- US Broadcast and Media
- US Cable

▶ **Areas of revenue decline**

- Europe
- US Satellite and Telco

▶ **Across-the-board market share gains**

- Recently named global IPTV market share leader (MRG, 1.8.2013)
- Versus big iron AND hot box competitors

▶ **Strong cash generation**

- \$70.8M cash generated from operations
- Return to shareholders – \$75M expanded repurchase plan



▶ **Strengthened product leadership**

- Multiscreen and OTT technology and solution superiority
- CCAP: transformative product launch
- Service and Support growth

▶ **Expanded customer base and go-to-market capabilities**

- Strong growth in emerging markets
- Leveraged position as lone healthy pure-video player

▶ **Bolstered management team and board**

- New marketing and product leadership added to management team
- New media and telecom experience added to board



▶ High quality IP video

- OTT delivery to connected LED TVs
- Multiscreen delivery to “retina display” mobile devices
- Production and Playout upgrades to more efficient infrastructure

▶ CCAP = Cable’s next-generation IP infrastructure

- New \$2B TAM opportunity

▶ HEVC

- Expected 50% efficiency gain vs. MPEG-4 AVC compression
- End-to-end upgrade opportunity: contribution to consumer, mobile to 4K

▶ Ultra HD

- Key technology at CES
- Race to first services



▶ Global market share

▶ Brand premium

- Driven by Harmonic innovation, leadership

▶ Position for strong 2014+ growth

- Extend multiscreen, OTT, and IP infrastructure footprint
- Capture early HEVC and Ultra HD leadership position
- Drive penetration of new CCAP platform

▶ Shareholder value

- Continued operational execution
- Continued cash generation
- Expansion of share repurchase program

Q4 2012: Financial Highlights



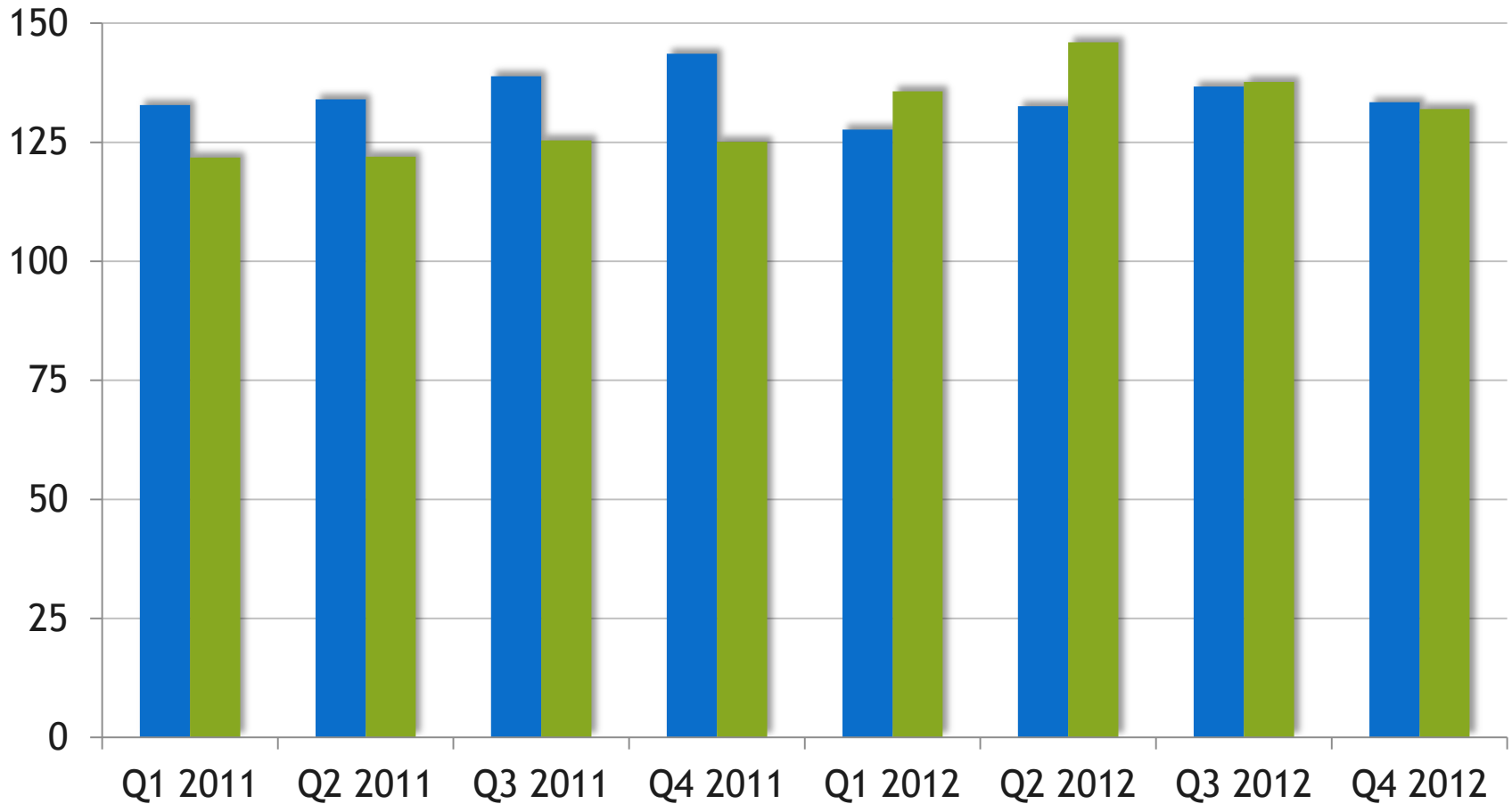
\$Millions (except GM, OM and EPS)	Q4 2012	Q3 2012	Q4 2011	Q4/Q3 Change	Q4 Y/Y Change
Total Net Revenue	\$133.4	\$136.7	\$143.6	-2%	-7%
Gross Margin % - Non-GAAP	53%	48%	51%	530 BP	250 BP
Gross Margin % - GAAP	49%	44%	47%	520 BP	250 BP
Operating Expense - Non-GAAP	\$56.5	\$54.8	\$53.9	3%	5%
Operating Margin - Non-GAAP	11%	8%	13%	300 BP	-230 BP
EPS - Non-GAAP	\$0.09	\$0.07	\$0.12	29%	-25%
EPS - GAAP	\$0.04	-\$0.07	\$0.04	157%	0%
Bookings	\$127.6	\$128.7	\$142.0	-1%	-10%
Backlog and Deferred	\$132.0	\$137.7	\$125.0	-4%	6%

Quarterly Revenue and Backlog



\$Millions

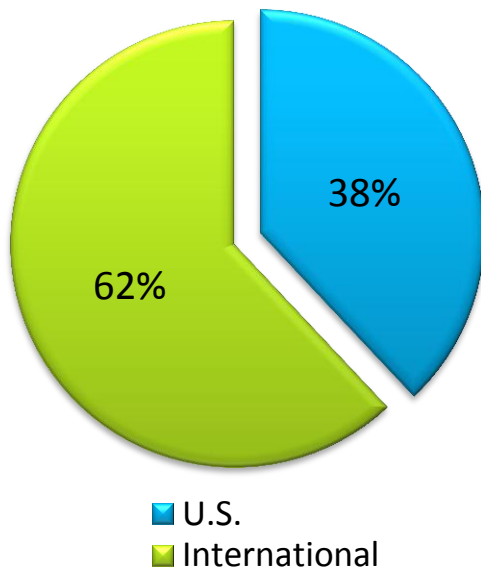
■ Revenue ■ Backlog/Deferred Revenue



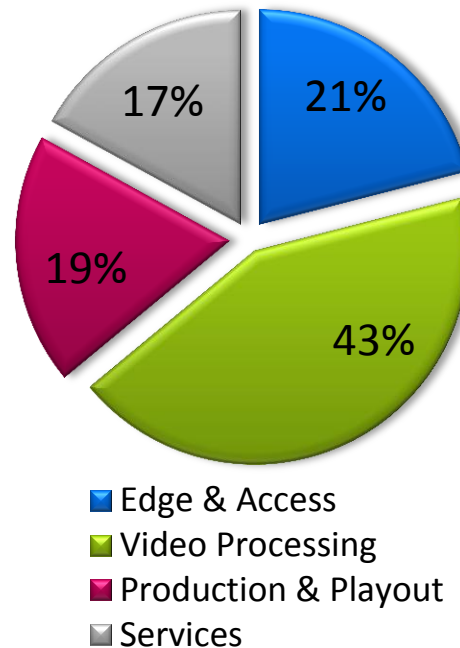


Revenues \$133.4M

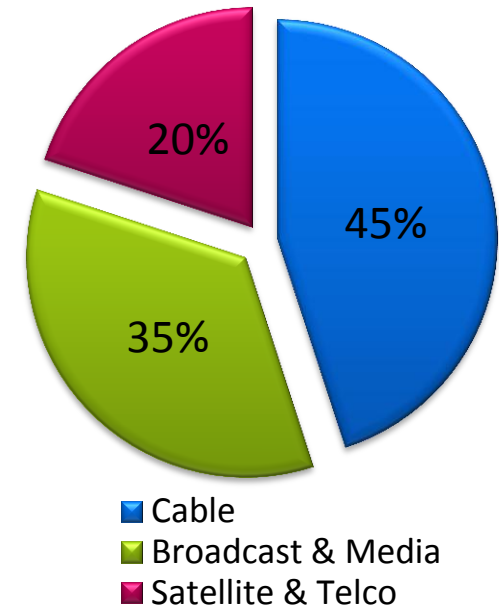
Geography



Products



Markets





	\$Millions	
Cash	\$201M	Up \$9.2M from Q3
Accounts Receivable	\$85.9M	61 days
Inventories	\$64.3M	3.9 turns
Debt	\$0	
Capital Expenditures	\$2.7M	\$12.6M for 2012
Shares Repurchased	\$8.3M	1.86 M Shares



- ▶ **Initial \$25M share repurchase nearly complete**

 - Purchased 5.1M shares at an average price of \$4.43

- ▶ **Strong cash generation during 2012**

 - \$39.3M net cash generated, after repurchase

- ▶ **\$75M share repurchase expansion**

 - Open market purchases over 18 months

 - Return capital to shareholders

 - Reduce share count over purchase period



	Metric
Q1 Revenue	\$115M - \$125M
Non-GAAP Gross Margin*	49% - 50%
Non-GAAP Operating Expenses*	\$56M - \$57M
Non-GAAP Tax Rate**	21% - 22%

*Excludes charges for stock-based compensation and the amortization of intangibles.
**Does not reflect the one-time benefit of 2012 R&D tax credit expected to be \$2M - \$3M in Q1



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

Q4 2012: GAAP to Non-GAAP Reconciliation



	Quarter ended December 31,					
	2012			2011		
	Gross Profit	Operating Expense	Net Income	Gross Profit	Operating Expense	Net Income
	(In thousands, except per share amounts)					
GAAP	\$ 65,411	\$ 62,717	\$ 4,804	\$ 66,870	\$ 60,243	\$ 4,327
Cost of revenue related to stock-based compensation expense	695	-	695	723	-	723
Research and development expense related to stock-based compensation expense	-	(1,458)	1,458	-	(1,661)	1,661
Selling, general and administrative expense related to stock-based compensation expense	-	(2,651)	2,651	-	(2,430)	2,430
Amortization of intangibles	5,043	(2,157)	7,200	5,423	(2,230)	7,653
Discrete tax items and adjustments	-	-	(5,979)	-	-	(2,751)
Non-GAAP	<u>\$ 71,149</u>	<u>\$ 56,451</u>	<u>\$ 10,829</u>	<u>\$ 73,016</u>	<u>\$ 53,922</u>	<u>\$ 14,043</u>
GAAP net income per share - basic			\$ 0.04			\$ 0.04
GAAP net income per share - diluted			\$ 0.04			\$ 0.04
Non-GAAP net income per share - basic			\$ 0.09			\$ 0.12
Non-GAAP net income per share - diluted			\$ 0.09			\$ 0.12
Shares used in per share calculation - basic			115,097			116,123
Shares used in per share calculation - diluted, GAAP			115,732			116,664
Shares used in per share calculation - diluted, non-GAAP			115,732			116,664



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