



First Quarter 2013 Earnings Conference Call

April 23, 2013

Patrick Harshman, President & CEO

Carolyn Aver, CFO

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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 strategic growth strategy and our Q2 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 \$101.7M

- 58% international, 42% US
- 38% broadcast and media, 39% cable, 23% satellite and telco
- In-line with guidance range

▶ Bookings \$110.1M

- International up year/year, driven by EMEA rebound
- Broadcast & Media up year/year
- Seasonally strong service bookings
- Backlog and deferred revenue \$126.3M

▶ Operating performance

- Gross margin 51% (non-GAAP)
- EPS (\$0.02) (non-GAAP)
- Cash up \$27.1M (divestiture proceeds offset by \$9.3M share repurchase)



- ▶ **Slow start but growing bookings momentum**
 - January weak
 - Booking momentum built during quarter, continuing into April
- ▶ **US PayTV provider demand continues to be soft**
 - Some customers looking ahead to new technology cycles
- ▶ **EMEA improved**
 - Best bookings quarter since 2011
- ▶ **Cable Access HFC business divestiture**
 - Sold lower growth / lower margin business for \$46M in cash



- ▶ **Strategic growth plan**
- ▶ **Capital structure**
- ▶ **Corporate governance**



▶ **Capitalize on coming technology cycles**

- CCAP
- HEVC
- Ultra HD
- OTT / IP video

▶ **Expand global customer base**

- International Pay TV market
- Global Broadcast and Media market



▶ **Converged Cable Access Platform (CCAP)**

- Expect first orders this quarter
- Continue to see 2014 ramp as 2-way functionality ships

▶ **Next-generation video compression (HEVC)**

- Announced and demonstrated first product at recent NAB show
- Ships in Q3 2013, volume beginning in 2014

▶ **Ultra HD**

- Demonstrated market-leading technology at recent NAB show
- Continue to see early adoption in 2014, volume transition 2015+

▶ **OTT and multiscreen IP video**

- Several new wins and launch of new cloud service
- Sluggish spending reflects industry struggle with business model



▶ **International Pay TV market**

- EMEA business rebounded
- Strong pipeline in Asia Pacific and Latin America

▶ **Broadcast and Media market**

- New product introductions driving growing pipeline
- Recent wins with two of top five US broadcasters

▶ **US PayTV service provider market**

- OTT monetization strategies evolving
- New technologies will spur re-investment



- ▶ **\$100M common stock tender offer at \$5.75 – \$6.25 per share**
 - Replaces current open-market purchase program
- ▶ **Target go-forward cash balance of approximately \$100M**
 - Continued focus on cash generation
 - Optimize balance sheet to provide operating flexibility and return cash to shareholders
 - Plan to re-establish open market purchases after tender is complete
- ▶ **Optimizes 2014 earnings growth**
 - Synergy with strategic growth outlook



- ▶ **Patrick Gallagher appointed board Chairman**
- ▶ **Lew Solomon will retire prior to Annual Meeting**
- ▶ **Continuing evolution of Board's skill set and experience**
 - Two new independent directors joined during past year
 - Focus on shareholder value

Q1 2013: Financial Highlights

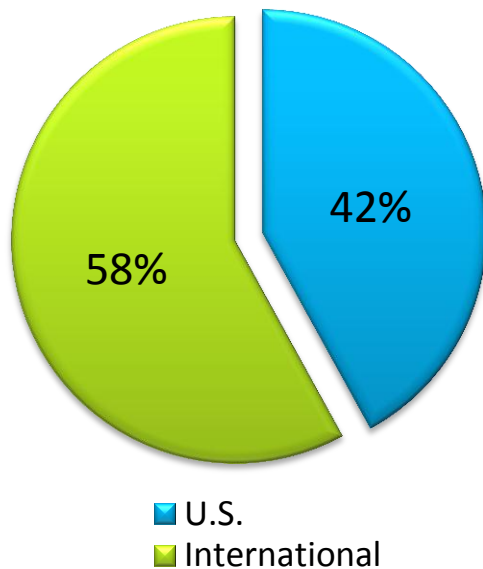


\$Millions (except GM, OM and EPS)	Q1 2013	Q4 2012	Q1 2012	Q1/Q4 Change	Q1 Y/Y Change
Total Net Revenue	\$101.7	\$118.0	\$116.4	-14%	-13%
Gross Margin % - Non-GAAP	51.0%	55.8%	48.6%	-480bp	240bp
Gross Margin % - GAAP	45.4%	50.9%	43.3%	-550bp	210bp
Operating Expense - Non-GAAP	\$55.2	\$54.6	\$54.3	1%	2%
Operating Margin - Non-GAAP	-3.3%	9.5%	2.0%	-1280bp	-530bp
EPS - Non-GAAP (continued OPs)	(\$0.02)	\$0.07	\$0.02	(\$0.09)	(\$0.04)
EPS - GAAP (continued Ops)	(\$0.08)	\$0.01	(\$0.07)	(\$0.09)	(\$0.01)
EPS - Non-GAAP (Total incl. disc. ops)	(\$0.01)	\$0.09	\$0.03	(\$0.10)	(\$0.04)
EPS - GAAP (Total incl disc. ops)	\$0.06	\$0.04	(\$0.06)	\$0.02	\$0.12
Bookings	\$110.1	\$110.8	\$132.1	-1%	-17%
Backlog and Deferred	\$126.3	\$119.5	n/a	6%	n/a

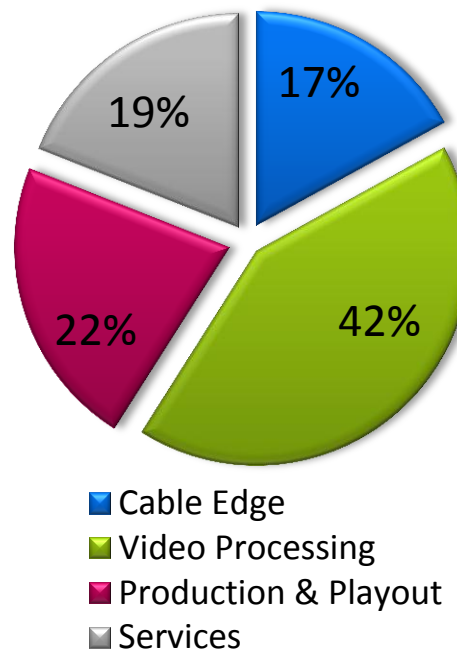


Revenues \$101.7M

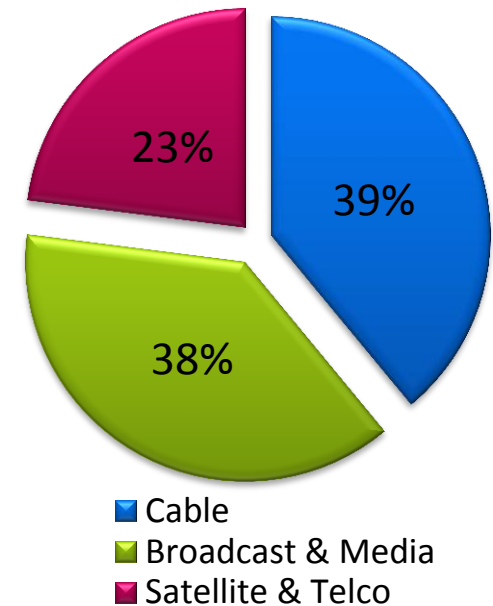
Geography



Products



Markets





	\$Millions	
Cash	\$228.3M	Up \$27.1M from Q4
Accounts Receivable	\$95.7M	76 days
Inventories	\$46.4M	4.3 turns
Debt	\$0	
Capital Expenditures	\$4.3M	
Shares Repurchased	\$9.3M	1.6M Shares



▶ **\$135 million of repurchases authorized**

- 2012: repurchased 5.1M for \$22.6M – \$4.43 per share
- Q113: repurchased 1.6M for \$9.3M – \$5.76 per share
- Q213: repurchased 1.3M for \$7.6M – \$5.71 per share
- Program halted on April 19

▶ **\$100 million tender offer announced**

- Will purchase at a price of \$5.75 - \$6.25
- Offer to purchase 16M shares, approximately 14% of outstanding shares



	Metric
Q2 Revenue	\$105M - \$115M
Non-GAAP Gross Margin*	51.5% - 52.5%
Non-GAAP Operating Expenses*	\$54M - \$55M
Non-GAAP Tax Rate	20% - 21%

*Excludes charges for stock-based compensation, the amortization of intangibles and restructuring and related charges.



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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 restructuring and related charges and non-cash items, such as stock-based compensation expense, and amortization of intangibles, and adjustments that normalize the tax rate.

Q1 2013: GAAP to Non-GAAP Reconciliation



	Three months ended					
	March 29, 2013			March 30, 2012		
	Gross Profit	Operating Expense	Net Income	Gross Profit	Operating Expense	Net Income
	(In thousands, except per share amounts)					
GAAP from continuing operations	\$ 46,165	\$ 61,032	\$ (9,503)	\$ 50,462	\$ 60,345	\$ (8,735)
Cost of revenue related to stock-based compensation expense	611	-	611	753	-	753
Research and development expense related to stock-based compensation expense	-	(1,203)	1,203	-	(1,655)	1,655
Selling, general and administrative expense related to stock-based compensation expense	-	(2,085)	2,085	-	(2,259)	2,259
Amortization of intangibles	4,945	(2,088)	7,033	5,360	(2,179)	7,539
Restructuring and related charges	141	(424)	565	-	-	-
Discrete tax items and adjustments	-	-	(4,738)	-	-	(1,309)
Non-GAAP from continuing operations	<u>\$ 51,862</u>	<u>\$ 55,232</u>	<u>\$ (2,744)</u>	<u>\$ 56,575</u>	<u>\$ 54,252</u>	<u>\$ 2,162</u>
Add : Non-GAAP from discontinued operations			1,017			1,033
Non-GAAP including discontinued operations			<u>(1,726)</u>			<u>3,195</u>
GAAP net loss from continuing operations per share - basic			<u>\$ (0.08)</u>			<u>\$ (0.07)</u>
GAAP net loss from continuing operations per share - diluted			<u>\$ (0.08)</u>			<u>\$ (0.07)</u>
Non-GAAP net income (loss) from continuing operations per share - basic			<u>\$ (0.02)</u>			<u>\$ 0.02</u>
Non-GAAP net income (loss) from continuing operations per share - diluted			<u>\$ (0.02)</u>			<u>\$ 0.02</u>
Shares used in per share calculation - basic			<u>115,219</u>			<u>117,275</u>
Shares used in per share calculation - diluted, GAAP			<u>115,219</u>			<u>117,275</u>
Shares used in per share calculation - diluted, non-GAAP			<u>115,219</u>			<u>118,134</u>
Non-GAAP income (loss) per share, including discontinued operations - diluted			<u>\$ (0.01)</u>			<u>\$ 0.03</u>



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