



Third Quarter 2012 Earnings Conference Call

October 23, 2012

Patrick Harshman, President & CEO

Carolyn Aver, Chief Financial Officer

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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 2012 business strategy and our Q4 2012 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 \$136.7M

- In line with expectations
- Strong cable demand
- Record service and support revenue

▶ Bookings \$128.7M

- Continuing macroeconomic headwinds (Europe)
- Positive demand trends from Asia
- Book-to-bill for the year above 1:1

▶ Operating performance

- Gross margin 48% (non-GAAP)
- EPS \$0.07 (non-GAAP)
- Cash generated from operations \$22M



- ▶ **European market headwinds**
- ▶ **Growing demand in Asia and emerging markets**
- ▶ **Growing penetration of digital TV and HD**
 - New content and channels
- ▶ **Continuing multiscreen / OTT wins**
- ▶ **Service and support growth**
- ▶ **Gaining market share across geographies**
 - Several competitors in strategic transition



- ▶ **Strong demand from cable operators**
- ▶ **Slower demand from satellite operators**
- ▶ **Expanding edgeQAM success**
- ▶ **Continued multiscreen / OTT wins**
 - Market focus on video bandwidth efficiency
- ▶ **Gaining market share across geographies**
 - Several competitors in strategic transition



Broadcast Customers:

NBC, BBC, Virgin Media,
Televisa, ESPN Brazil, NHK,
CCTV, Foxtel, SRG-SSR, Sky
Italia, NRK, France Television



NBC Multiscreen Delivery:

3,500 hours live streaming to
TV, PC, tablets & smartphones
Peak usage: 35-40% U.S.
bandwidth

Products Deployed:

MediaGrid Shared Storage
ProMedia Carbon File Transcoding
Electra Linear Encoding
ProStream Linear Transcoding
NMX Service Management

Breaking New Ground:

Live encoding for first, live,
public trial of MPEG-DASH with
VRT (Belgium)

Third consecutive Olympic games for Harmonic solutions in broadcast workflow



▶ IBC 2012 Awards

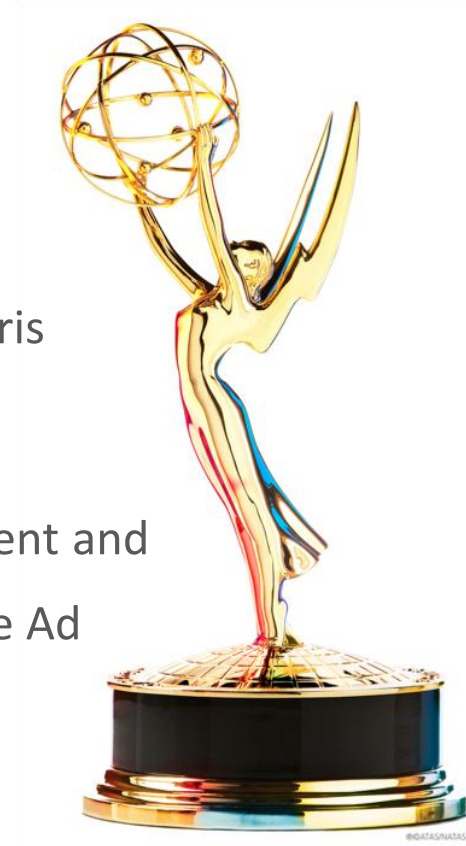
- Best Mobile TV Technology, CSI – ProMedia Suite
- STAR Award, TV Technology Europe – ProMedia Express

▶ SCTE 2012 Awards

- Diamond Technology Award 2012 – ProStream, ProView, Iris

▶ Emmy for Technology and Engineering

- For excellence in engineering creativity in "The Development and Commercialization for Digital Infrastructure for Local Cable Ad Insertion".
- Presentation at CES in January 2013





▶ CCAP

- Convergence of QAM and CMTS markets
- Increases bandwidth flexibility and efficiency
- Simplifies and reduces costs at cable headends

▶ NSG Pro Announcement

- Further solidifies edgeQAM leadership
- Already in customer lab trials
- Opens up new \$1.5 – \$2.0 B market

Dreaming of CCAP?
Turn fantasy into reality with Harmonic NSG Pro

CCAP is real with NSG Pro from Harmonic
Harmonic NSG Pro is a Converged Cable Access Platform that enables you to easily move towards all-IP at the cable edge. With the high density of NSG Pro you can minimize costs by converging platforms and dramatically reduce both power and space requirements. NSG Pro fits seamlessly into your environment, and provides the easiest, most cost-effective path to CCAP.

Learn more at NSGPro.com

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Please visit us at SCTE, booth #2635



▶ “Ultra HD” 4K

- 4 times the pixels of 1080 HDTV
- Industry is launching TV sets, cameras now
- Growing customer interest across market verticals

▶ High Efficiency Video Coding – HEVC

- Halves bandwidth/doubles frame rate across video infrastructures
- Applicable from SD to 4K for mobile and wireline services
- Expect upgrade cycle 2013 - 2015

Q3 2012: Financial Highlights



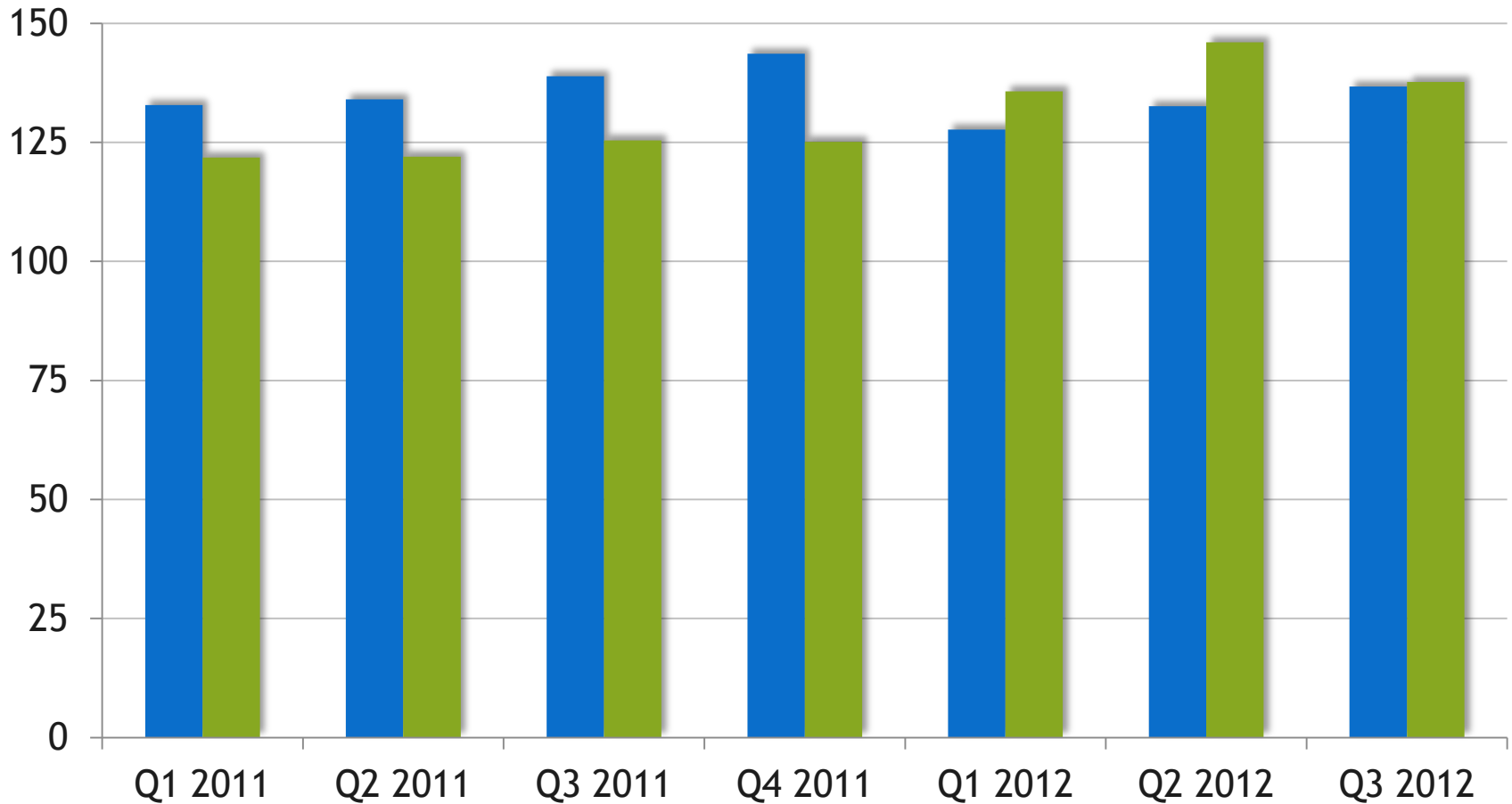
\$Millions (except GM, OM and EPS)	Q3 2012	Q2 2012	Q3 2011	Q3/Q2 Change	Q3 Y/Y Change
Total Net Revenue	\$136.7	\$132.6	\$138.9	3%	-2%
Gross Margin % - Non-GAAP	48%	48%	51%	20BP	-260BP
Gross Margin % - GAAP	44%	43%	46%	40BP	-230BP
Operating Expense - Non-GAAP	\$54.8	\$53.9	\$53.7	2%	2%
Operating Margin - Non-GAAP	8%	7%	12%	80BP	-390BP
EPS - Non-GAAP	\$0.07	\$0.06	\$0.11	\$0.01	-\$0.04
EPS - GAAP	-\$0.07	\$0.00	\$0.03	-\$0.07	-\$0.10
Bookings	\$128.7	\$139.5	\$141.4	-8%	-9%
Backlog and Deferred	\$137.7	\$146.0	\$125.4	-6%	10%

Quarterly Revenue and Backlog



\$Millions

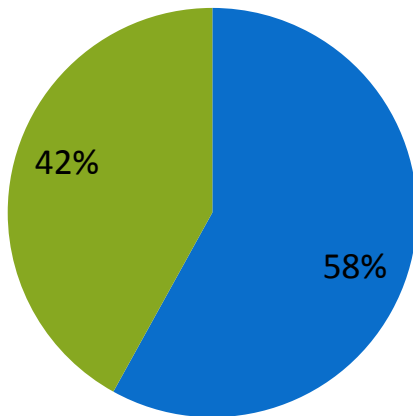
■ Revenue ■ Backlog/Deferred Revenue





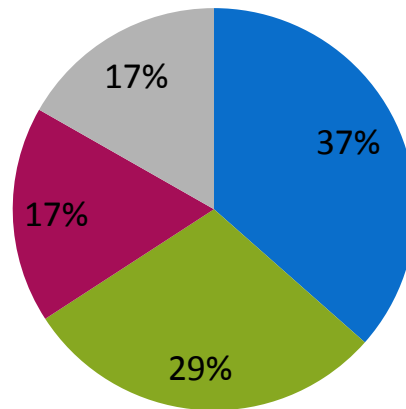
GEOGRAPHY

■ International ■ United States



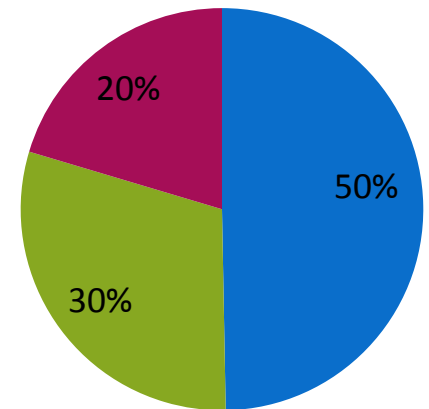
PRODUCTS

■ Video Processing ■ Edge and Access
■ Production and Playout ■ Services and Support



MARKETS

■ Cable ■ Broadcast and Media ■ Satellite and Telco





	\$Millions	
Cash	\$192.0	Up \$14.2M from Q2
Accounts Receivable	\$94.6	63 days
Inventories	\$68.3	4.2 turns
Debt	\$0	
Capital Expenditures	\$3.3	\$14M-\$16M for 2012
Shares Repurchased	\$7.4	1.65 M Shares



	Metric
Q4 Revenue	\$132M - \$142M
Non-GAAP Gross Margin*	48% - 50%
Non-GAAP Operating Expenses*	\$55M - \$56.5M
Non-GAAP Tax Rate**	25% - 26%
<p>*Excludes charges for stock-based compensation and the amortization of intangibles. **Assumes no extension to the R&D tax credit</p>	



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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 press release 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 discrete tax items and adjustments and non-cash items, such as stock-based compensation expense, and amortization of intangibles.

Q3 2012: GAAP to Non-GAAP Reconciliation



	Three months ended					
	September 28, 2012			September 30, 2011		
	Gross Profit	Operating Expense	Net Income (Loss)	Gross Profit	Operating Expense	Net Income
	(In thousands, except per share amounts)					
GAAP	\$ 59,904	\$ 60,853	\$ (8,230)	\$ 63,961	\$ 60,121	\$ 3,546
Cost of revenue related to stock-based compensation expense	702	-	702	843	-	843
Research and development expense related to stock-based compensation expense	-	(1,512)	1,512	-	(1,658)	1,658
Selling, general and administrative expense related to stock-based compensation expense	-	(2,406)	2,406	-	(2,504)	2,504
Amortization of intangibles	5,048	(2,179)	7,227	5,446	(2,229)	7,675
Discrete tax items and adjustments	-	-	4,529	-	-	(3,483)
Non-GAAP	<u>\$ 65,654</u>	<u>\$ 54,756</u>	<u>\$ 8,146</u>	<u>\$ 70,250</u>	<u>\$ 53,730</u>	<u>\$ 12,743</u>

GAAP net income (loss) per share - basic	<u>\$ (0.07)</u>	<u>\$ 0.03</u>
GAAP net income (loss) per share - diluted	<u>\$ (0.07)</u>	<u>\$ 0.03</u>
Non-GAAP net income per share - basic	<u>\$ 0.07</u>	<u>\$ 0.11</u>
Non-GAAP net income per share - diluted	<u>\$ 0.07</u>	<u>\$ 0.11</u>
Shares used in per share calculation - basic	<u>116,517</u>	<u>115,791</u>
Shares used in per share calculation - diluted, GAAP	<u>116,517</u>	<u>116,208</u>
Shares used in per share calculation - diluted, non-GAAP	<u>116,918</u>	<u>116,208</u>



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