



Fourth Quarter and Year-End 2013 Earnings Conference Call

January 28, 2014

Patrick Harshman, President & CEO

Carolyn Aver, CFO

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 2014 business strategy and our Q1 2014 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 \$120.2M
 - Up 2% year-over-year
 - 60% International, 40% US
 - 42% Broadcast and Media, 35% Cable, 23% Satellite and Telco
- Bookings \$113.3M
 - Up 2% year-over-year
 - Year-to-date book-to-bill ratio 1.0
 - Backlog and deferred revenue \$114.0M
- Operating performance
 - Gross margin 54.3% (non-GAAP)
 - EPS \$0.08 (non-GAAP)
 - Cash generated from operations \$18.6M

- Broadcast & Media growth
 - Up 8% year-over-year
 - New product traction: contribution, multiscreen, production and playout
- Cable Edge improving
 - Strong licenses sales in Q4 (high margin, lower revenue)
 - H2 revenue up 28% over H1
- Satellite and Telco holding
 - Up 4% year-over-year
 - First order for next generation compression innovations
- International healthy
 - H2 revenue up 17% over H1
 - Emerging market momentum

- Operating performance
 - Revenue \$461.9M, bookings \$465.6M
 - Gross margin 52.6% (non-GAAP)
 - EPS \$0.17 (non-GAAP)
 - Cash generated from operations \$53.8M, repurchased 18.3M shares
- Strategic progress
 - Broadcast and Media business grew 11% year-over-year
 - Significant progress on transformative new product initiatives
 - Divested legacy cable optical access business
 - New Sales leadership
- Second-half sales momentum
 - H2 revenue up 11% from H1

- Strategic growth plan
 - Capitalize on coming technology cycles: CCAP, Ultra HD, IP multiscreen
 - Expand global customer base
- Capital structure
- Corporate governance and management

Targeted Technology Upgrade Cycles: Converged Cable Edge

- Phase 1: Downstream CCAP (2014)
 - Second customer secured in Q4 2013
 - New multi-million dollar order in Q1 2014
 - Expanded market share lead*
 - Cable on-demand traffic poised to expand in 2014
- Phase 2: Two-way CCAP (2015)
 - Estimated \$1.6B annual market*
 - Innovative new architecture (whitepaper with ALU)
 - Initial two-way functionality in customer lab
 - Customer evaluation and qualification to accelerate mid-2014



*Infonetics Research November 2013

Targeted Technology Upgrade Cycles: Next Generation Video Encoding

- Next-generation encoding of SD, HD
 - New innovations in MPEG-2 and MPEG-4 / AVC encoding
 - Catalyst for new cable, satellite, telco upgrades
 - First tier 1 satellite customer order
- HEVC encoding of UltraHD
 - New low price points for TVs
 - Netflix “4K” announcement
 - HEVC decode in Smart TVs at CES
 - Harmonic demonstrations at CES with Broadcom, Samsung, Sigma Designs
 - Volume shipments expected in 2015



Targeted Technology Upgrade Cycles: Multiscreen Delivery

Harmonic Confirmed #1 in Multiscreen Transcoding

Production & Playout

#1 in Broadcast Playout Servers

FROST & SULLIVAN

October 2012

Primary Distribution

#1 in Pay TV Encoders

FROST & SULLIVAN

August 2012

Content & Service Delivery

#1 in IPTV Headends

M multimedia research group, inc. an NAB Group Company

May 2013

Cable Edge

#1 in Cable EdgeQAMs

INFONETICS RESEARCH

November 2013

Multiscreen

#1 in Multiscreen Transcoding

FROST & SULLIVAN

Oct. 2013

M multimedia research group, inc. an NAB Group Company

Dec. 2013

FROST & SULLIVAN

2013 BEST PRACTICES AWARD

Market Share Leadership Multi-Screen Transcoding Global, 2013

Multiformat Transcoder Market Leaders

M multimedia research group, inc. an NAB Group Company

Transcoder Market Leaders by File Processing Servers

- High probability growth drivers
 - Broadcast and Media market
 - Emerging Markets
 - Next-gen SD/HD encoding innovations
 - NSG Pro cable edge
 - Service & support
 - Competitive market share gains
- Market development upside
 - HEVC encoding
 - Ultra HD
 - Multiscreen market acceleration



Q4 2013: Financial Highlights



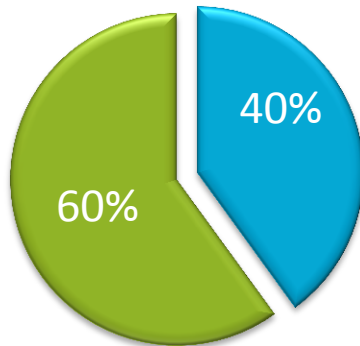
\$Millions (except GM, OM, & EPS)	Q4 2013	Q3 2013	Q4 2012	Q4 / Q3 Change	Q4 Y / Y Change
Total Net Revenue	\$120.2	\$122.9	\$118.0	-2%	2%
Gross Margin % - Non-GAAP	54.3%	50.8%	55.8%	350bp	-150bp
Gross Margin % - GAAP	49.6%	46.2%	50.9%	340bp	-130bp
Operating Expense – Non-GAAP	\$54.5	\$53.7	\$54.6	1.5%	-
Operating Margin – Non-GAAP	8.9%	7.1%	9.5%	180bp	-60bp
EPS – Non-GAAP	\$0.08	\$0.07	\$0.07	\$0.01	\$0.01
EPS – GAAP	(\$0.02)	\$0.36	\$0.01	(\$0.38)	(\$0.03)
Bookings	\$113.3	\$115.9	\$110.8	-2%	2%
Backlog and Deferred**	\$114.0	\$123.6	n/a	-8%	n/a

**Backlog and deferred excluding Access is not available for periods prior to Q1 2013

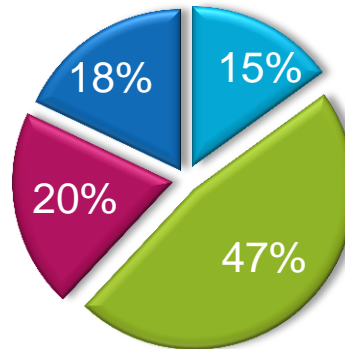
Revenue Mix

Q4 2013 Revenues \$120.2M

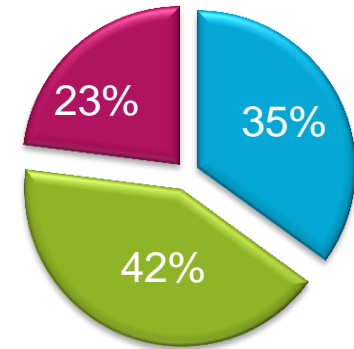
Geography



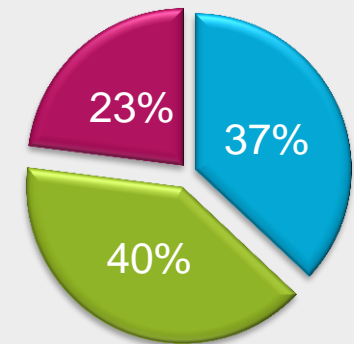
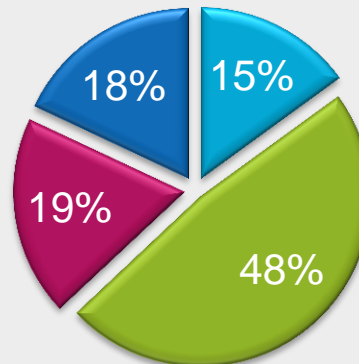
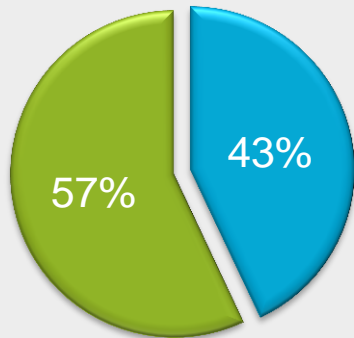
Products



Markets



FY 2013 Revenues \$461.9M



- U.S.
- International

- Cable Edge
- Video Processing
- Production & Playout
- Services & Support

- Cable
- Broadcast & Media
- Satellite & Telco

Q4 2013: Balance Sheet and Cap-Ex Highlights



	\$Millions	
Cash	\$170.6M	Up \$1.3M from Q3
Accounts Receivable	\$75.1M	57 days
Inventories	\$36.9M	6.0 turns
Debt	\$0	
Capital Expenditures	\$3.3M	
Shares Repurchased	\$13.0M	1.8M Shares

- Completed \$75 million tender offer in Q2 2013
 - Purchased 12.0 million shares for \$6.25 per share
- Open market purchases
 - 2012: repurchased 5.1 million shares for \$22.6 million
 - 2013: repurchased 6.3 million shares for \$40.7 million
- Shares outstanding on December 31, 2013 approximately 99.4 million
- \$81.8 million authorized for future purchases as of December 31, 2013

Q1 2014: Financial Guidance



	Metric
Revenue	\$105M - \$115M
Non-GAAP Gross Margin*	51% - 52%
Non-GAAP Operating Expenses*	\$54M - \$55M
Non-GAAP Tax Rate	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 margin, operating expense, operating margin, income (loss) from operations, net income (loss) and net income (loss) 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 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 and non-cash items, such as stock-based compensation expense, amortization of intangibles, and adjustments that normalize the tax rate.

Q4 2013: GAAP to Non-GAAP Reconciliations

	Three months ended			
	December 31, 2013			
	Gross Profit	Total Operating Expense	Income (loss) from Operations	Net Income (Loss)
GAAP from continuing operations	\$ 59,596	\$ 60,594	\$ (998)	\$ (2,179)
Stock-based compensation in cost of revenue	574	-	574	574
Stock-based compensation in research and development	-	(1,031)	1,031	1,031
Stock-based compensation in selling, general and administrative	-	(2,531)	2,531	2,531
Amortization of intangibles	4,763	(1,997)	6,760	6,760
Restructuring and related charges	293	(496)	789	789
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(1,220)
Non-GAAP from continuing operations	\$ 65,226	\$ 54,539	\$ 10,687	\$ 8,286
<i>As a % of revenue (GAAP)</i>	<i>49.6%</i>	<i>50.4%</i>	<i>-0.8%</i>	<i>-1.8%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>54.3%</i>	<i>45.4%</i>	<i>8.9%</i>	<i>6.9%</i>
Diluted income (loss) per share from continuing operations:				
Diluted net loss per share from continuing operations-GAAP				\$ (0.02)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.08
Shares used to compute diluted income (loss) per share from continuing operations:				
GAAP				100,372
Non-GAAP				101,937

Q3 2013: GAAP to Non-GAAP Reconciliations

	Three months ended			
	September 27, 2013			
	Gross Profit	Total Operating Expense	Income (loss) from Operations	Net Income
GAAP from continuing operations	\$ 56,792	\$ 59,347	\$ (2,555)	\$ 36,675
Stock-based compensation in cost of revenue	605	-	605	605
Stock-based compensation in research and development	-	(1,076)	1,076	1,076
Stock-based compensation in selling, general and administrative	-	(2,264)	2,264	2,264
Amortization of intangibles	4,763	(2,001)	6,764	6,764
Restructuring and related charges	324	(259)	583	583
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(40,846)
Non-GAAP from continuing operations	\$ 62,484	\$ 53,747	\$ 8,737	\$ 7,121
<i>As a % of revenue (GAAP)</i>	46.2%	48.3%	-2.1%	29.8%
<i>As a % of revenue (Non-GAAP)</i>	50.8%	43.7%	7.1%	5.8%
Diluted income per share from continuing operations:				
Diluted net income per share from continuing operations-GAAP				\$ 0.36
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.07
Shares used to compute diluted income per share from continuing operations:				
GAAP				102,723
Non-GAAP				102,723

Q4 2012: GAAP to Non-GAAP Reconciliations

	Three months ended			
	December 31, 2012			
	Gross Profit	Total Operating Expense	Income (loss) from Operations	Net Income
GAAP from continuing operations	\$ 60,111	\$ 60,834	\$ (723)	\$ 890
Stock-based compensation in cost of revenue	652	-	652	652
Stock-based compensation in research and development	-	(1,396)	1,396	1,396
Stock-based compensation in selling, general and administrative	-	(2,633)	2,633	2,633
Amortization of intangibles	5,043	(2,157)	7,200	7,200
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(4,489)
Non-GAAP from continuing operations	<u>\$ 65,806</u>	<u>\$ 54,648</u>	<u>\$ 11,158</u>	<u>\$ 8,282</u>
<i>As a % of revenue (GAAP)</i>	<i>50.9%</i>	<i>51.6%</i>	<i>-0.6%</i>	<i>0.8%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>55.8%</i>	<i>46.3%</i>	<i>9.5%</i>	<i>7.0%</i>
Diluted income per share from continuing operations:				
Diluted net income per share from continuing operations-GAAP				<u>\$ 0.01</u>
Diluted net income per share from continuing operations-Non-GAAP				<u>\$ 0.07</u>
Shares used to compute diluted income per share from continuing operations:				
GAAP				<u>115,732</u>
Non-GAAP				<u>115,732</u>



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