



Second Quarter 2013 Earnings Conference Call

July 23, 2013

Patrick Harshman, President & CEO

Carolyn Aver, 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 2013 business strategy and our Q3 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.

Q2 2013 Results



- Revenue \$117.1M
 - 53% international, 47% US
 - 40% broadcast and media, 36% cable, 24% satellite and telco
 - Above guidance range
- Bookings \$126.3M
 - Healthy demand from EMEA, Latin Am, North America Broadcast & Media
 - Continued soft demand from US Pay-TV Service Providers
 - Backlog and deferred revenue \$132.5M
- Operating performance
 - Gross margin 54% (non-GAAP)
 - EPS \$0.05 (non-GAAP)
 - Cash from operations \$24.8M

Q2 2013 Business Trends & Activity



- Continued bookings momentum
 - Maintained from February & March
 - Better linearity
- Strength in North America Broadcast & Media
 - Cross selling across Harmonic / acquisitions
- EMEA improvement continued
 - Visibility improved
- US Pay-TV Service Provider demand continues to be soft
 - Positive strategic progress on CCAP
 - Stronger video processing sales

- Strategic growth plan
 - Capitalize on coming technology cycles
 - CCAP
 - HEVC
 - Ultra HD
 - OTT and multiscreen IP video
 - Expand global customer base
 - International Pay-TV market
 - Global broadcast and media market
- Capital structure
- Corporate governance and management

Targeted Technology Upgrade Cycles



- Converged Cable Access Platform (CCAP)
 - Testing and qualification proceeding well
 - First order and shipment
- Next-generation video compression (HEVC & enhanced AVC)
 - Strong customer interest post NAB
 - On track to ship HEVC in Q3 2013
 - Exploring AVC improvements
- Ultra HD
 - Several customer demos post NAB
 - Continue to see early adoption in 2014, volume transition 2015+
 - Retail advertisements frequently appearing
- OTT and multiscreen IP video
 - Several new wins and key endorsements
 - Focus on library access versus live channels

Ultra HD / HEVC Demos



- SES
- Tier 1 European cable MSO
- Tier 1 US cable MSO



Expanding Global Customer Base



- International Pay-TV market
 - EMEA business continues to improve
 - Strong pipeline in Latin America
- Broadcast and media market
 - New collapsed functionality products growing pipeline
 - Recent wins now with three of top five US broadcasters
 - Broadcasters buying solutions across production, playout and video processing portfolios
- US Pay-TV service provider market
 - Strong quarter for video processing
 - New technologies will spur re-investment

- Cumulative repurchase over 20M shares to date
 - 8.8M in open market – average price \$5.03
 - 12.0M via tender offer – price \$6.25
- Board authorized \$100M repurchase going forward
 - Existing program expanded by \$85M
 - Resumed open market purchases

- George Stromeyer joined Harmonic as SVP, Worldwide Sales
 - Extensive leadership experience in international service provider and enterprise sales
 - Third new addition to executive management team in past year
- Annual meeting scheduled for August 14th

Q2 2013: Financial Highlights



\$Millions (except GM, OM and EPS)	Q2 2013	Q1 2013	Q2 2012	Q1/Q2 Change	Q2 Y/Y Change
Total Net Revenue	\$117.1	\$101.7	\$122.1	15%	-4%
Gross Margin % - Non-GAAP	54.1%	51.0%	49.9%	310bp	420bp
Gross Margin % - GAAP	49.4%	45.4%	45.1%	400bp	430bp
Operating Expense - Non-GAAP	\$56.1	\$55.2	\$52.4	2%	7%
Operating Margin - Non-GAAP	6.2%	-3.3%	7.0%	950bp	-80bp
EPS - Non-GAAP	\$0.05	(\$0.02)	\$0.06	\$0.07	(\$0.01)
EPS - GAAP	(\$0.03)	(\$0.08)	(\$0.03)	\$0.05	\$0.00
Bookings	\$126.3	\$110.1	\$128.5	15%	-2%
Backlog and Deferred**	\$132.5	\$126.3	n/a	5%	n/a

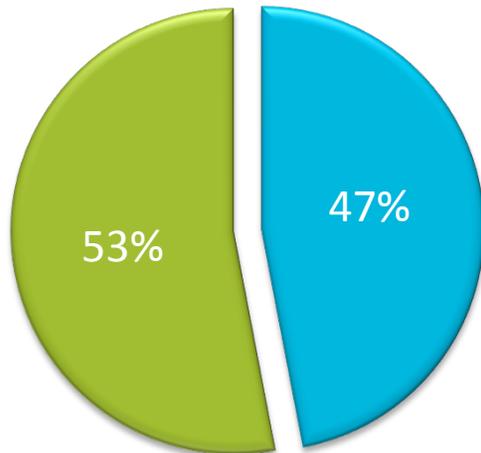
** Backlog and deferred excluding Access is not available for periods prior to Q4 2012

Q2 2013 Revenue Mix



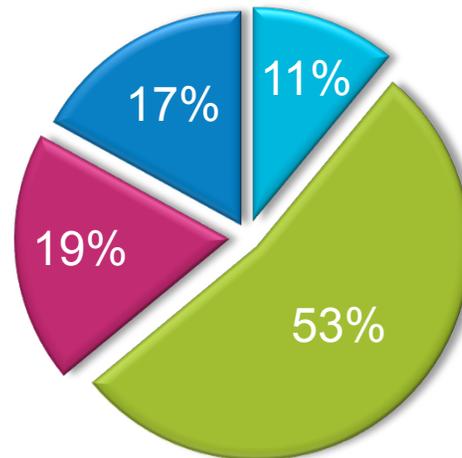
Revenues \$117.1M

Geography



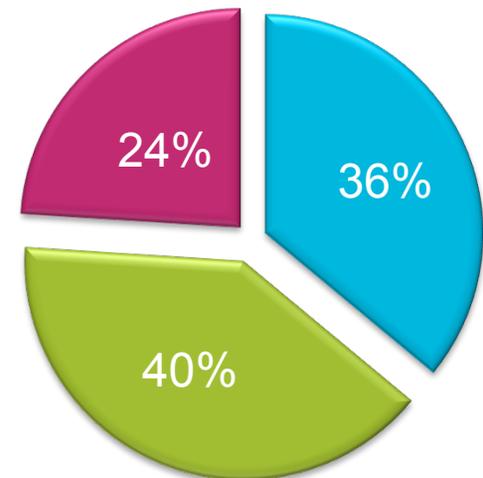
- U.S.
- International

Products



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

Markets



- Cable
- Broadcast & Media
- Satellite & Telco

Q2 2013: Balance Sheet and Cap-Ex Highlights



	\$Millions	
Cash	\$161.7M	Down \$66.6M from Q1
Accounts Receivable	\$86.2M	67 days
Inventories	\$44.4M	4.8 turns
Debt	\$0	
Capital Expenditures	\$4.5M	
Shares Repurchased	\$86.1M	13.8M Shares

Share Repurchase Activity



- Completed \$75 million tender offer
 - Purchased 12.0 million shares for \$6.25 per share
- Open market purchases
 - 2012: repurchased 5.1 million shares for \$22.6 million
 - Q1 13: repurchased 1.6 million shares for \$9.3 million
 - Q2 13: repurchased 1.8 million shares for \$10.7 million
 - Q3 13: repurchased QTD 300,000 for \$1.9 million
- Shares outstanding on June 30 approximately 101 million
- \$100 million authorized for future purchases
 - \$85 million newly authorized

Q3 2013: Financial Guidance



	Metric
Q3 Revenue	\$115M - \$125M
Non-GAAP Gross Margin*	50% -51%
Non-GAAP Operating Expenses*	\$54.5M - \$55.5M
Non-GAAP Tax Rate	21%

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



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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 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, and costs related to consulting fees associated with our proxy contest.

Q2 2013: GAAP to Non-GAAP Reconciliations

Harmonic Inc.
GAAP to Non-GAAP Reconciliations (Unaudited)
(In thousands, except percentages and per share data)

	Three months ended			
	June 28, 2013			
	Gross Profit	Operating Expense	Operating Income (Loss)	Net Income (Loss)
GAAP from continuing operations	\$ 57,892	\$ 62,496	\$ (4,604)	\$ (3,404)
Stock-based compensation in cost of revenue	622	-	622	622
Stock-based compensation in research and development	-	(1,121)	1,121	1,121
Stock-based compensation in selling, general and administrative	-	(2,279)	2,279	2,279
Proxy contest consultant expenses in selling, general and administrative	-	(750)	750	750
Amortization of intangibles	4,762	(2,010)	6,772	6,772
Restructuring and related charges	65	(242)	307	307
Income tax effect of Non-GAAP adjustments	-	-	-	(2,803)
	\$ 63,341	\$ 56,094	\$ 7,247	\$ 5,644
Non-GAAP from continuing operations				
<i>As a % of revenue</i>	<i>54.1%</i>	<i>47.9%</i>	<i>6.2%</i>	<i>4.8%</i>
Diluted income (loss) per share from continuing operations:				
Diluted net loss per share from continuing operations-GAAP				\$ (0.03)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.05
Shares used to compute diluted income (loss) per share from continuing operations:				
GAAP				109,938
Non-GAAP				110,909

Q1 2013: GAAP to Non-GAAP Reconciliations

Harmonic Inc.
GAAP to Non-GAAP Reconciliations (Unaudited)
(In thousands, except percentages and per share data)

	Three months ended			
	March 29, 2013			
	Gross Profit	Operating Expense	Operating Income (Loss)	Net Income (Loss)
GAAP from continuing operations	\$ 46,165	\$ 61,032	\$ (14,867)	\$ (9,503)
Stock-based compensation in cost of revenue	611	-	611	611
Stock-based compensation in research and development	-	(1,203)	1,203	1,203
Stock-based compensation in selling, general and administrative	-	(2,085)	2,085	2,085
Amortization of intangibles	4,945	(2,088)	7,033	7,033
Restructuring and related charges	141	(424)	565	565
Income tax effect of Non-GAAP adjustments	-	-	-	(4,738)
Non-GAAP from continuing operations	\$ 51,862	\$ 55,232	\$ (3,370)	\$ (2,744)
<i>As a % of revenue</i>	51.0%	54.3%	-3.3%	-2.7%
Diluted income (loss) per share from continuing operations:				
Diluted net loss per share from continuing operations-GAAP				\$ (0.08)
Diluted net loss per share from continuing operations-Non-GAAP				\$ (0.02)
Shares used to compute diluted income (loss) per share from continuing				
GAAP				115,219
Non-GAAP				115,219

Q2 2012: GAAP to Non-GAAP Reconciliations

Harmonic Inc.
GAAP to Non-GAAP Reconciliations (Unaudited)
(In thousands, except percentages and per share data)

	Three months ended			
	June 29, 2012			
	Gross Profit	Operating Expense	Operating Income (Loss)	Net Income (Loss)
GAAP from continuing operations	\$ 55,081	\$ 58,373	\$ (3,292)	\$ (3,875)
Stock-based compensation in cost of revenue	764	-	764	764
Stock-based compensation in research and development	-	(1,650)	1,650	1,650
Stock-based compensation in selling, general and administrative	-	(2,169)	2,169	2,169
Amortization of intangibles	5,048	(2,190)	7,238	7,238
Income tax effect of Non-GAAP adjustments	-	-	-	(1,467)
Non-GAAP from continuing operations	\$ 60,893	\$ 52,364	\$ 8,529	\$ 6,479
<i>As a % of revenue</i>	<i>49.9%</i>	<i>42.9%</i>	<i>7.0%</i>	<i>5.3%</i>
Diluted income (loss) per share from continuing operations:				
Diluted net loss per share from continuing operations-GAAP				<u>\$ (0.03)</u>
Diluted net income per share from continuing operations-Non-GAAP				<u>\$ 0.06</u>
Shares used to compute diluted income (loss) per share from continuing				
GAAP				<u>117,056</u>
Non-GAAP				<u>117,493</u>



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