



Fourth Quarter and Year End 2014 Earnings Conference Call

January 29, 2015

Patrick Harshman, President & CEO

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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 business strategy for 2015, and beyond, and our Q1 2015 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, Form 10-Q and Form 8-K. 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.

Q4 2014 Results Summary



- Revenue \$108M, flat sequentially
 - Cable Edge down \$6M, Video up \$5M, Services up \$1M
 - Broadcast & Media 32%, Service Provider 68%
 - Americas 56%, EMEA 25%, APAC 19%
- Bookings \$121M
 - Up 24% sequentially
 - Book-to-bill ratio 1.1
 - Americas strong, modest rebound in EMEA
- Operating performance
 - Gross Margin 54.1% (non-GAAP)
 - EPS \$0.06 (non-GAAP)
 - Cash generated from operations \$20M

2014 Results Summary



- Revenue \$434M, down 6% year-over-year
 - Cable Edge \$95M, up 38%
 - Video \$248M, down 19%
 - Service & Support \$90M, up 6%
 - Americas up 3%, EMEA down 22%, APAC down 6%
- Operating performance
 - Gross Margin 52.8% (non-GAAP)
 - EPS \$0.16 (non-GAAP)
 - Cash generated from operations \$47M
- Foundation for earnings growth and value creation
 - Book-to-bill 1.06, backlog up 13% year-over-year
 - Repurchased 14% of shares for \$93M
 - Significant progress on transformational product initiatives

Q4 2014 Video Business Update



- Several new VOS wins with Tier 1 service providers
- Several new OTT wins, including first scale 4K deployment
- Growing opportunity pipeline for new Polaris suite
- Modest rebound in EMEA demand
- Many customers still holding off on investment pending 4K/UHD and NFV ecosystem maturity



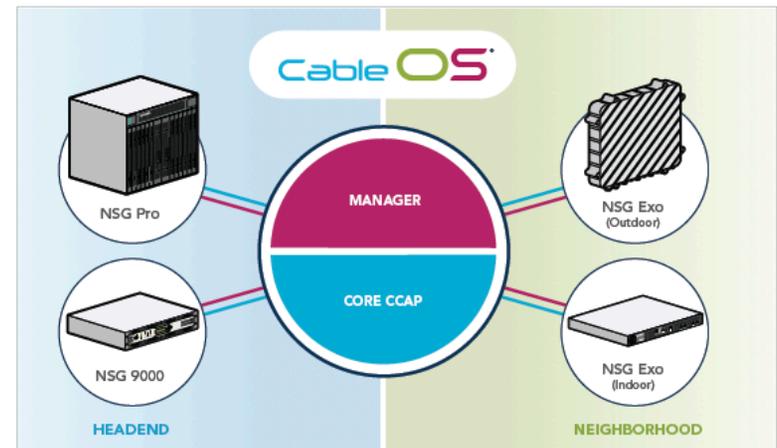
- Market Dynamics and Catalysts
 - 4K/UHD maturity and expansion
 - Growing acceptance of NFV for live video infrastructure
 - Customer consolidation
 - Global currency headwinds



- Harmonic Milestones
 - Accelerating new VOS customer wins
 - Extending VOS platform innovations and function attach rate
 - First live 4K/UHD deployments
 - Polaris-enabled media production and playout wins

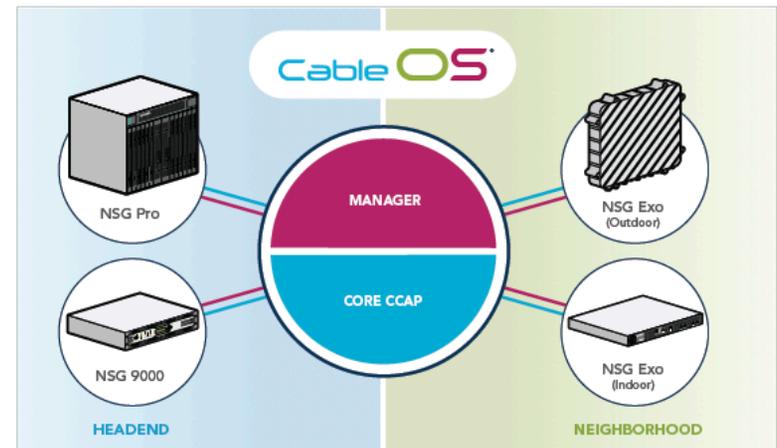
Return to revenue growth while strengthening margins in 2015

- Continued NSG Pro momentum (centralized CCAP platform)
 - Approx. \$45M orders received since launch
 - First Tier 1 customer wins in Europe
 - Multiple deployments of converged video and data applications
- First NSG Exo orders (distributed CCAP platform)
 - Harmonic's first DOCSIS CMTS wins



■ Market Dynamics and Catalysts

- Continued narrowcast QAM demand for VOD and OTT
- Accelerating gigabit broadband competition driving DOCSIS 3.1
- Deeper fiber architectures driving distributed CCAP
- Customer consolidation



■ Harmonic Milestones

- Global expansion of NSG Pro footprint (centralized CCAP platform)
- Additional NSG Exo wins (distributed DOCSIS 3.0 CMTS / CCAP)
- DOCSIS 3.1 development on both NSG Pro and Exo platforms

Continued revenue growth and margin expansion in 2015

Positioned to Drive Top & Bottom Line Growth



Strategically Positioned

- Video: Leader in virtualization transition, 4K, OTT
- Cable Edge: Leader in CCAP QAM, executing DOCSIS CCAP strategy, centralized and distributed

Competitively Advantaged

- Unparalleled IP, innovation, services and TCO
- Strong global brand
- Deep relationships with global Media companies and Service Providers

Driving Value in 2015

- Positive Video and Cable Edge market momentum
- Targeting revenue growth and margin expansion
- Continued cash generation and share buyback

Targeting strong earnings growth in 2015

Q4 2014 Financial Highlights



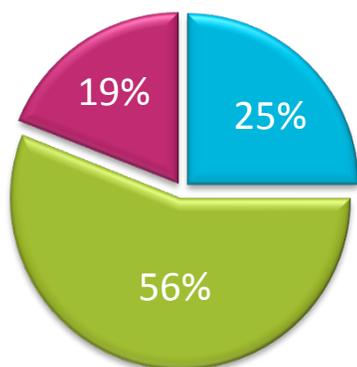
\$Millions (except GM & EPS)	Q4 2014	Q3 2014	Q4 2013	Q4 / Q3 Change	Q4 Y/Y Change
Total Net Revenue	\$107.9	\$108.1	\$120.2	-	-10%
Gross Margin % – Non-GAAP	54.1%	53.6%	54.3%	50 bp	-20 bp
Operating Expense – Non-GAAP	\$51.6	\$51.2	\$54.5	1%	-5%
EPS – Non-GAAP	\$0.06	\$0.06	\$0.08	-	(\$0.02)
Bookings	\$121.1	\$97.8	\$113.3	24%	7%
Book to Bill	1.1	0.9	0.9	22%	-
Backlog and Deferred	\$128.7	\$116.6	\$114.0	10%	13%

Q4 2014 Revenue Trends

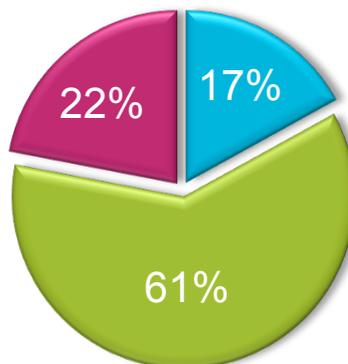


Q4 2014 Revenues \$107.9M

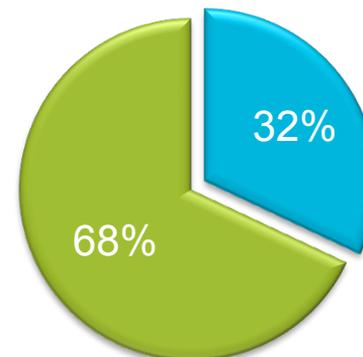
Geography



Products

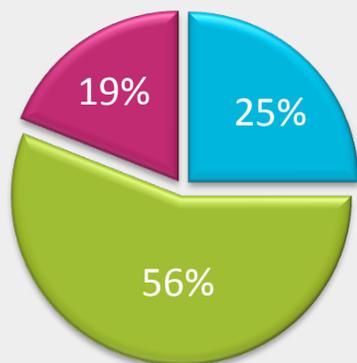


Markets

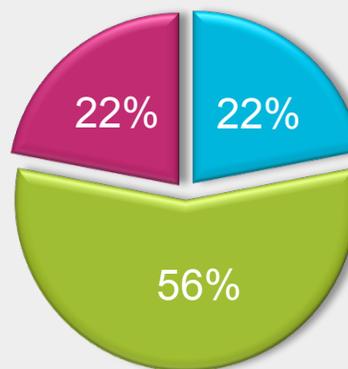


Q3 2014 Revenues \$108.1M

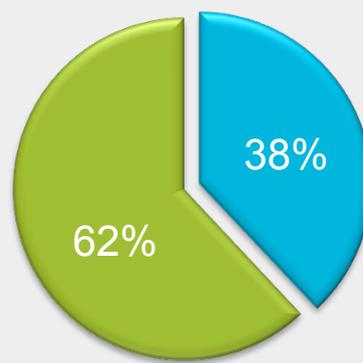
Geography



Products



Markets



- EMEA
- Americas
- APAC

- Cable Edge
- Video Products
- Service & Support

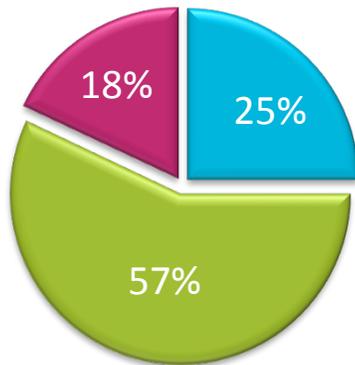
- Broadcast & Media
- Service Provider

2014 Revenue Trends

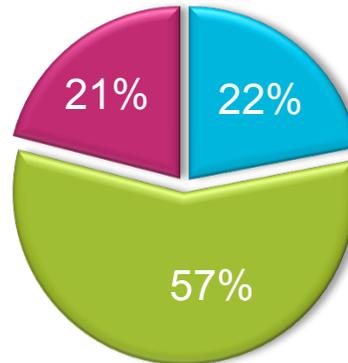


2014 Revenues \$433.6M

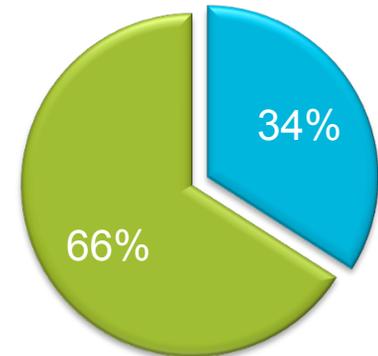
Geography



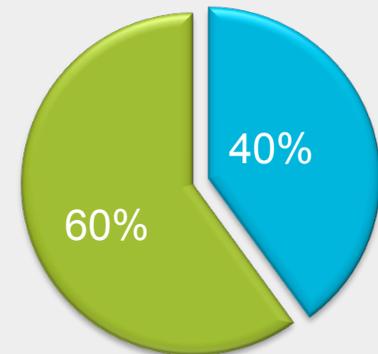
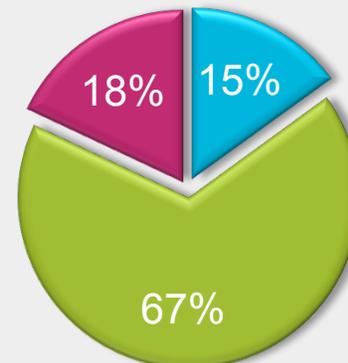
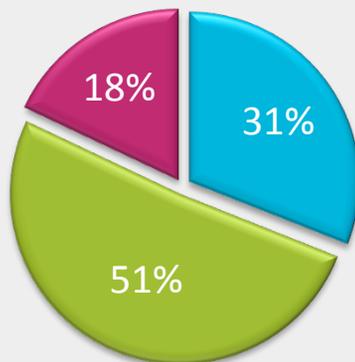
Products



Markets



2013 Revenues \$461.9M



- EMEA
- Americas
- APAC

- Cable Edge
- Video Products
- Service & Support

- Broadcast & Media
- Service Provider

Q4 2014 Balance Sheet Highlights



	\$Millions	
Cash	\$104.9	
Accounts Receivable	\$74.1	63 days
Inventories	\$32.7	6.1 turns
Cash From Operations	\$19.8	
Shares Repurchased	\$6.7	1M Shares

Share Repurchase Program



- Q4 2014, repurchased 1.0 million shares for \$6.7M
- Cumulative repurchases of 37.3 million shares for \$231M since 2Q 2012
- Shares outstanding on Dec. 31, 2014 approximately 87.7 million
- \$69M authorized for future purchases as of Dec. 31, 2014

Returned over 140% of cash from operations
to shareholders since 2Q'12

	Q1 2015
Revenue	\$100M - \$110M
Non-GAAP Gross Margin*	52.5% - 53.5%
Non-GAAP Operating Expenses*	\$50.5M - \$51.5M
Non-GAAP Tax Rate	21%

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

New Business Line Reporting



Two Businesses

- Video
 - Video Processing, Production & Playout, and associated services
- Cable Edge
 - Cable Edge and associated services

Three Geographies

- Americas
- EMEA
- APAC

Two Markets

- Broadcast & Media
- Service Providers

Implementation Timeframe

Business, revenue and operating margin:

- Included in earnings release beginning in 1Q 2015
- Segment disclosures will be included in our 2014 Form 10-K, and made available on our web site in late February.

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Thank You

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 margin, operating expenses, income (loss) from operations and net income (loss) (including those amounts as a percentage of revenue), and net income (loss) per diluted 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, 2013 proxy contest-related expenses and adjustments that normalize the tax rate.

Q4 2014 GAAP to Non-GAAP Reconciliations



	Three months ended			
	December 31, 2014			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)
GAAP from continuing operations	\$ 56,791	\$ 58,953	\$ (2,162)	\$ (4,854)
Stock-based compensation in cost of revenue	608	-	608	608
Stock-based compensation in research and development	-	(1,255)	1,255	1,255
Stock-based compensation in selling, general and administrative	-	(2,704)	2,704	2,704
Amortization of intangibles	696	(1,446)	2,142	2,142
Restructuring and asset impairment charges	220	(1,941)	2,161	2,161
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	1,251
Non-GAAP from continuing operations	\$ 58,315	\$ 51,607	\$ 6,708	\$ 5,267
<i>As a % of revenue (GAAP)</i>	52.6%	54.6%	-2.0%	-4.5%
<i>As a % of revenue (Non-GAAP)</i>	54.1%	47.8%	6.2%	4.9%
Diluted net income(loss) per share from continuing operations:				
Diluted net loss per share from continuing operations-GAAP				\$ (0.06)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.06
Shares used to compute diluted net income (loss) per share from continuing operations:				
GAAP				88,012
Non-GAAP				89,342

Q3 2014 GAAP to Non-GAAP Reconciliations



	Three months ended			
	September 26, 2014			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income
GAAP from continuing operations	\$ 53,428	\$ 56,966	\$ (3,538)	\$ 1,078
Stock-based compensation in cost of revenue	612	-	612	612
Stock-based compensation in research and development	-	(1,219)	1,219	1,219
Stock-based compensation in selling, general and administrative	-	(2,521)	2,521	2,521
Amortization of intangibles	3,851	(1,661)	5,512	5,512
Restructuring and related charges	15	(388)	403	403
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(6,198)
Non-GAAP from continuing operations	\$ 57,906	\$ 51,177	\$ 6,729	\$ 5,147
<i>As a % of revenue (GAAP)</i>	<i>49.4%</i>	<i>52.7%</i>	<i>-3.3%</i>	<i>1.0%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>53.6%</i>	<i>47.4%</i>	<i>6.2%</i>	<i>4.8%</i>
Diluted net income per share from continuing operations:				
Diluted net income per share from continuing operations-GAAP				\$ 0.01
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.06
Shares used to compute diluted net income per share from continuing operations:				
GAAP				91,800
Non-GAAP				91,800

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 net 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 net income (loss) per share from continuing operations:				
GAAP				100,372
Non-GAAP				101,937

2014 GAAP to Non-GAAP Reconciliations



	Year ended			
	December 31, 2014			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)
GAAP from continuing operations	\$ 212,348	\$ 233,919	\$ (21,571)	\$ (46,248)
Stock-based compensation in cost of revenue	2,359	-	2,359	2,359
Stock-based compensation in research and development	-	(4,844)	4,844	4,844
Stock-based compensation in selling, general and administrative	-	(10,084)	10,084	10,084
Amortization of intangibles	13,745	(6,775)	20,520	20,520
Restructuring and asset impairment charges	314	(2,762)	3,076	3,076
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	20,445
Non-GAAP from continuing operations	\$ 228,766	\$ 209,454	\$ 19,312	\$ 15,080
<i>As a % of revenue (GAAP)</i>	<i>49.0%</i>	<i>54.0%</i>	<i>-5.0%</i>	<i>-10.7%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>52.8%</i>	<i>48.3%</i>	<i>4.5%</i>	<i>3.5%</i>
Diluted net income(loss) per share from continuing operations:				
Diluted net loss per share from continuing operations-GAAP				\$ (0.50)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.16
Shares used to compute diluted net income (loss) per share from continuing operations:				
GAAP				92,508
Non-GAAP				93,802

2013 GAAP to Non-GAAP Reconciliations



	Year ended			
	December 31, 2013			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income
GAAP from continuing operations	\$ 220,445	\$ 243,469	\$ (23,024)	\$ 21,589
Stock-based compensation in cost of revenue	2,412	-	2,412	2,412
Stock-based compensation in research and development	-	(4,431)	4,431	4,431
Stock-based compensation in selling, general and administrative	-	(9,159)	9,159	9,159
Proxy contest consultant expenses in selling, general and administrative	-	(750)	750	750
Amortization of intangibles	19,233	(8,096)	27,329	27,329
Restructuring and related charges	823	(1,421)	2,244	2,244
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(49,607)
Non-GAAP from continuing operations	\$ 242,913	\$ 219,612	\$ 23,301	\$ 18,307
<i>As a % of revenue (GAAP)</i>	<i>47.7%</i>	<i>52.7%</i>	<i>-5.0%</i>	<i>4.7%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>52.6%</i>	<i>47.5%</i>	<i>5.0%</i>	<i>4.0%</i>
Diluted net income per share from continuing operations:				
Diluted net income per share from continuing operations-GAAP				\$ 0.20
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.17
Shares used to compute diluted net income (loss) per share from continuing operations:				
GAAP				107,808
Non-GAAP				107,808