



## Second Quarter 2011 Earnings Call

July 21, 2011

Patrick Harshman—Chief Executive Officer  
Carolyn Aver—Chief Financial Officer

# 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 2011 business strategy, our Q3 2011 financial outlook, our 2011 guidance on revenue and operating performance. 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 recent Report on Form 10-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](http://www.harmonicinc.com).





## Business Review

Patrick Harshman—Chief Executive Officer

# Second Quarter Results

## ▶ Revenue \$134M

- International revenue 59% of total, up 26% from Q2 2010 pro-forma\* revenue
- Domestic revenue 41% of total, down 15% from Q2 2010 pro-forma\* revenue
- First-half revenue up 12% from first-half 2010 pro-forma\* revenue

## ▶ Bookings \$132M

- Broad-based international strength offset by slower domestic orders

## ▶ Operating performance

- Gross margin 51% (non-GAAP)
- Operating margin 11% (non-GAAP)
- EPS \$0.09 (non-GAAP)
- Cash increased \$17M

\*Includes full quarter pro forma revenue for Omneon for periods prior to July 1, 2011.



# Second Quarter Analysis

## ▶ Strong international demand

- First half international revenue up 22% over first half of 2010 (pro-forma)
- Strength across product categories and geographies
- Competitive success and associated pricing pressure

## ▶ Slower domestic demand for high-end encoding

- Timing of initiatives - expect stronger demand in Q3
- Many customers planning new integrated HD + multiscreen initiatives

## ▶ Internet and new media solutions continue to grow

- Revenue up significantly from Q2 2010
- Strategic progress across customer segments and geographies
- Compelling pipeline of new products and solutions



# Second Quarter Analysis

## ▶ Cable Edge & Access demand strong

- Revenue up 29% from Q1 2011
- EdgeQAM demand driven by new HectoQAM product, VOD and M-CMTS applications

## ▶ Omneon business bounced back

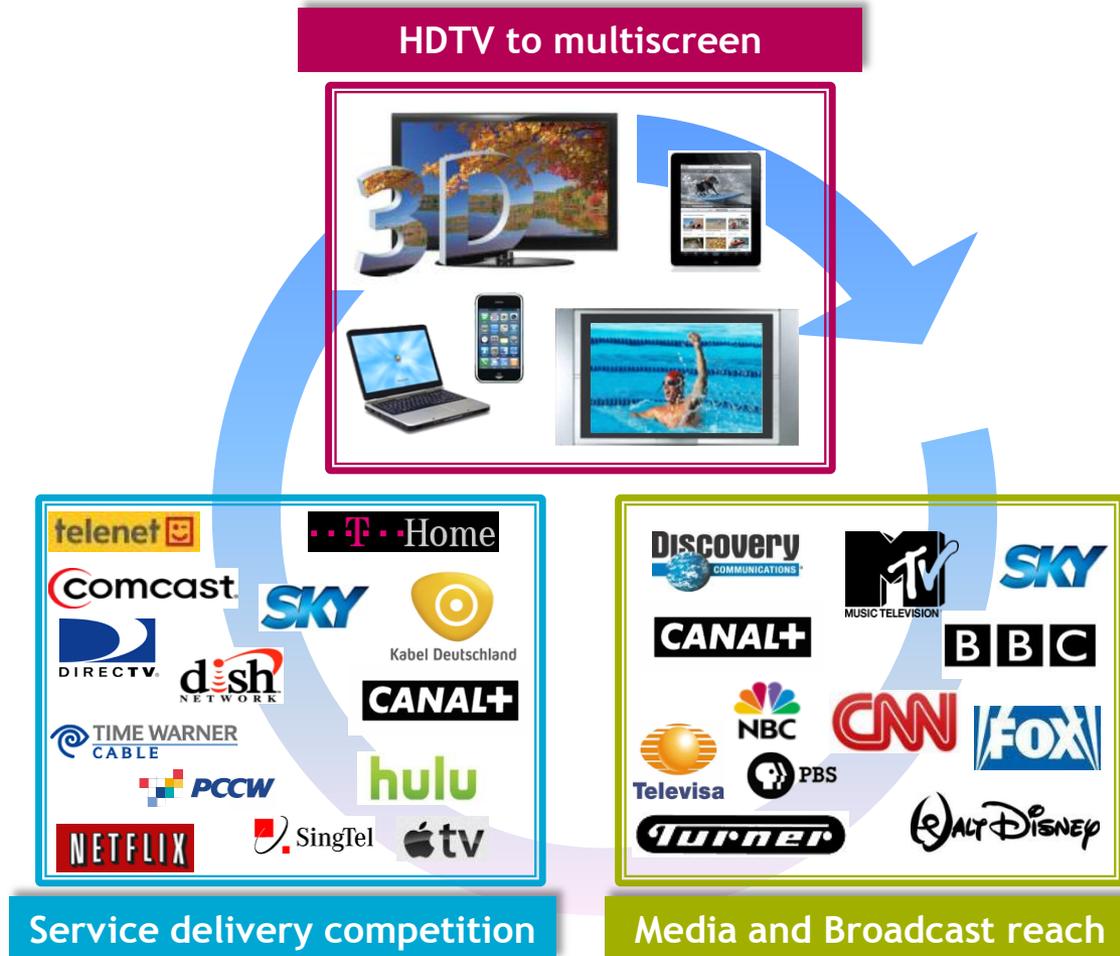
- Production & Playout revenue up 14% from Q1 2011
- New media storage and server products well received
- Sales integration progressing

## ▶ Expanding customer base

- Top 10 customers contributed only 37% revenue
- Strategic Broadcast and Media accounts among top 10



# Market Outlook—The Video Economy



# 2011 Business Strategy

- ▶ Leverage increased scale, solution breadth, competitive strength
  - Expand brand and customer relationships in developed markets
  - Capture greater market share in emerging markets
- ▶ Extend leadership position in new applications and verticals
  - Multi-screen and new media services
  - Video production
- ▶ Drive technology innovation
  - Deliver on rich pipeline of new products and solutions
- ▶ Enhance operational execution





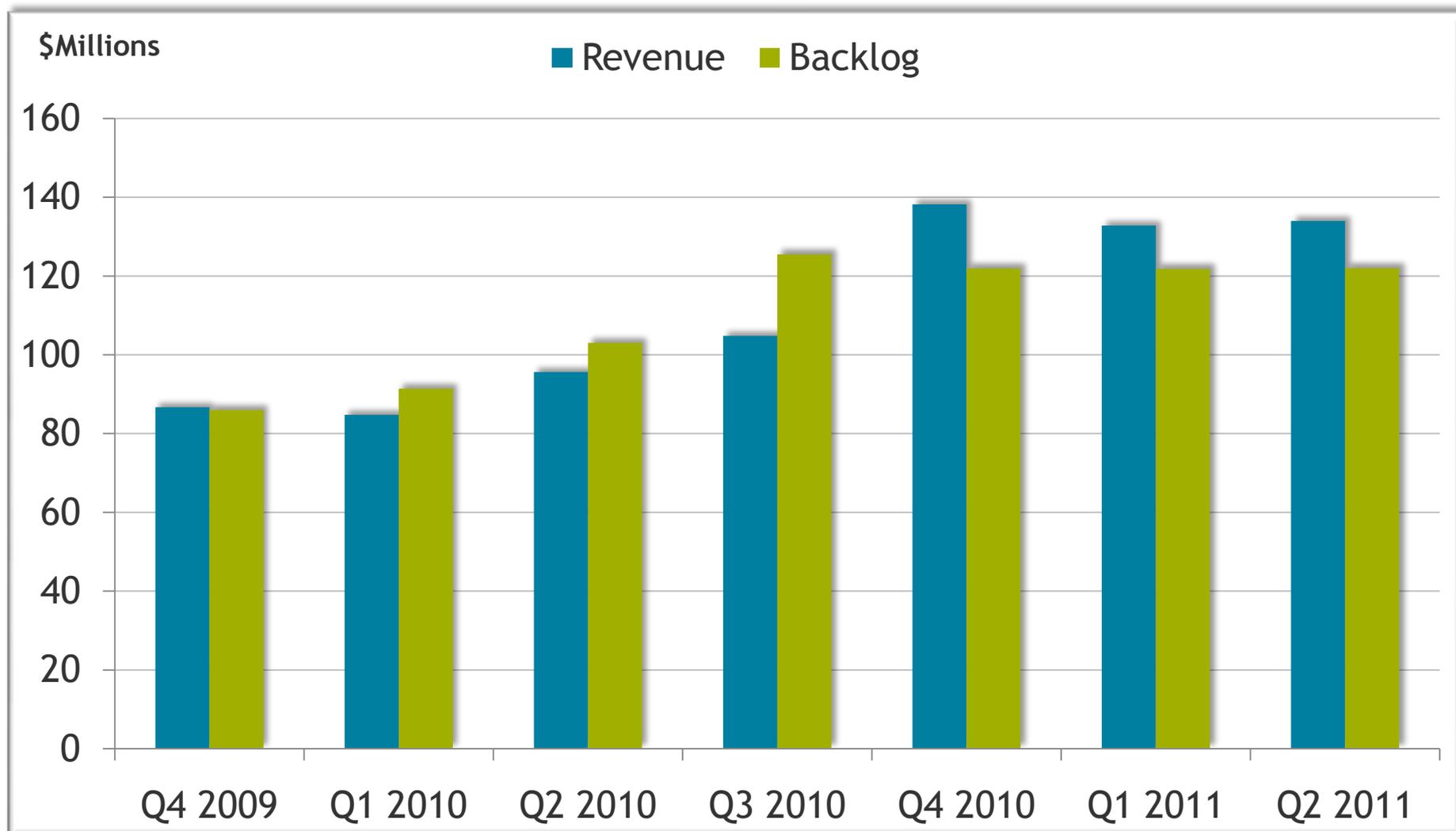
## Financial Review

Carolyn Aver—Chief Financial Officer

# Financial Highlights

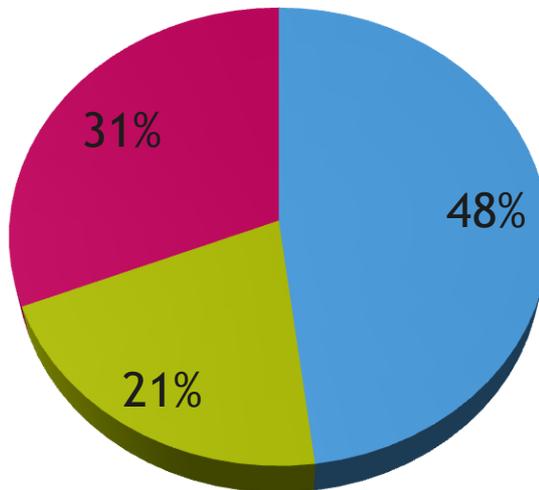
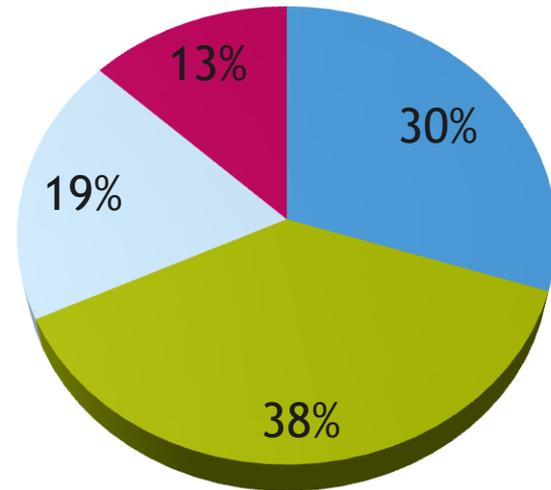
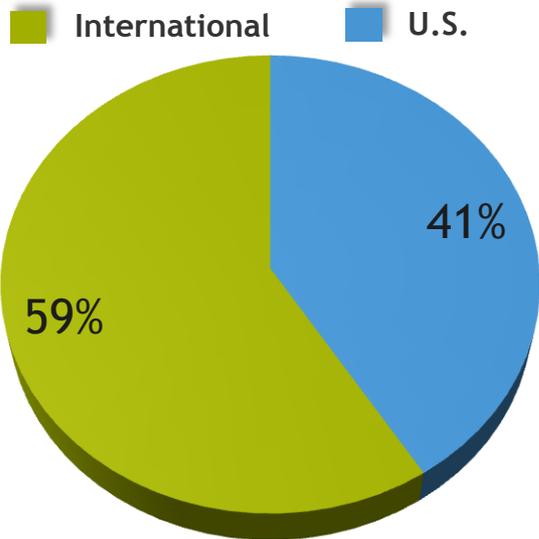
Millions (except GM and EPS)	Q2 2011	Q1 2011	Q2 2010	Q2/Q1 Change	Q2 Y/Y Change
Net Revenue - GAAP	\$134.0	\$132.8	\$95.5	1%	40%
Net Revenue - Pro Forma	\$134.0	\$134.9	\$127.5	-1%	5%
Int'l Revenue - Pro Forma	\$78.4	\$74.3	\$62.0	6%	26%
Gross Margin %- Non GAAP	51%	51%	51%	-19 bp	27 bp
Gross Margin % - GAAP	46%	47%	48%	-17 bp	-167 bp
OPEX - Non GAAP	\$53.9	\$54.0	\$35.6	0%	51%
EPS - Non GAAP	\$0.09	\$0.09	\$0.09	\$0.00	\$0.00
EPS - GAAP	\$0.00	\$0.00	\$0.05	\$0.00	-\$0.05
Bookings	\$131.7	\$131.6	\$103.9	0%	27%
Backlog & Deferred	\$122.0	\$121.8	\$103.0	0%	18%

# Quarterly GAAP Revenue and Backlog



Omneon contributed from completion of acquisition on September 15, 2011.

# Q2 2011 Pro Forma Revenue Mix



# Balance Sheet and Cap-Ex Highlights

	\$	Metric
Cash	\$134.3M	Up \$17M Q2/Q1
Accounts Receivable	\$117.9M	80 days
Inventory	\$61.1M	4.1 turns
Debt	none	
Capital Expenditures	\$3.6M	Expect \$14M-\$16M For 2011



# Q3 2011 Financial Guidance

- ▶ Target Q3 revenues: \$130M to \$140M
- ▶ Target Q3 non-GAAP gross margin: 50% to 52%\*
- ▶ Target Q3 non-GAAP op-ex: \$53.0M to \$54.0M\*
- ▶ Expected non-GAAP tax rate for 2011: 25%

\* Excludes charges for stock-based compensation and the amortization of intangibles



# 2011 Financial Outlook

- ▶ Full year revenue guidance - \$540M - \$550M
- ▶ Operating performance
  - Expecting stable gross margins 50% - 52%
  - Expecting a decrease in operating expenses in Q4





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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 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 excess facilities charges, severance charges, acquisition related costs, discrete tax items and adjustments and non-cash items, such as stock-based compensation expense and amortization of intangibles.



# GAAP to Non-GAAP Reconciliation—Q2 2011

	Three months ended					
	July 1, 2011			July 2, 2010		
	Gross Profit	Operating Expense	Net Income	Gross Profit	Operating Expense	Net Income
	(In thousands, except per share amounts)					
GAAP	\$61,828	\$60,435	\$ 390	\$45,682	\$41,585	\$ 4,445
Cost of revenue related to stock-based compensation expense	762	-	762	527	-	527
Research and development expense related to stock-based compensation expense	-	(1,771)	1,771	-	(1,158)	1,158
Selling, general and administrative expense related to stock-based compensation expense	-	(2,559)	2,559	-	(1,734)	1,734
Selling, general and administrative expense related to severance costs	-	-	-	-	(207)	207
Acquisition costs related to Omneon	-	-	-	-	(2,389)	2,389
Amortization of intangibles	5,491	(2,230)	7,721	2,082	(534)	2,616
Discrete tax items and adjustments	-	-	(2,717)	-	-	(3,957)
Non-GAAP	<u>\$68,081</u>	<u>\$53,875</u>	<u>\$10,486</u>	<u>\$48,291</u>	<u>\$35,563</u>	<u>\$ 9,119</u>
GAAP net income per share - basic			<u>\$ 0.00</u>			<u>\$ 0.05</u>
GAAP net income per share - diluted			<u>\$ 0.00</u>			<u>\$ 0.05</u>
Non-GAAP net income per share - basic			<u>\$ 0.09</u>			<u>\$ 0.09</u>
Non-GAAP net income per share - diluted			<u>\$ 0.09</u>			<u>\$ 0.09</u>
Shares used in per share calculation - basic			<u>114,939</u>			<u>96,998</u>
Shares used in per share calculation - diluted			<u>116,298</u>			<u>97,570</u>

# Historic Pro-forma Financial Information

	Three months ended						Year ended		Three months ended					
	April 2, 2010		July 2, 2010		October 1, 2010		December 31, 2010		December 31, 2010		April 1, 2011		July 1, 2011	
	(In thousands, except percentages)													
<b>Product</b>														
Video Processing	\$ 38,890	34%	\$ 49,998	39%	\$ 51,005	39%	\$ 63,005	45%	\$ 202,898	40%	\$ 63,758	47%	\$ 51,525	38%
Production and Playout	24,828	22%	26,589	21%	26,024	20%	27,699	20%	105,140	21%	22,408	17%	25,453	19%
Edge and Access	35,544	32%	34,263	27%	34,712	27%	30,787	22%	135,306	26%	31,176	23%	40,178	30%
Services and Support	13,777	12%	16,623	13%	17,760	14%	17,514	13%	65,674	13%	17,566	13%	16,840	13%
<b>Total</b>	<b>\$ 113,039</b>	<b>100%</b>	<b>\$ 127,473</b>	<b>100%</b>	<b>\$ 129,501</b>	<b>100%</b>	<b>\$ 139,005</b>	<b>100%</b>	<b>\$ 509,018</b>	<b>100%</b>	<b>\$ 134,908</b>	<b>100%</b>	<b>\$ 133,996</b>	<b>100%</b>
<b>Geography</b>														
United States	\$ 49,632	44%	\$ 65,456	51%	\$ 62,415	48%	\$ 64,230	46%	\$ 241,733	47%	\$ 60,608	45%	\$ 55,578	41%
International	63,407	56%	62,017	49%	67,086	52%	74,775	54%	267,285	53%	74,300	55%	78,418	59%
<b>Total</b>	<b>\$ 113,039</b>	<b>100%</b>	<b>\$ 127,473</b>	<b>100%</b>	<b>\$ 129,501</b>	<b>100%</b>	<b>\$ 139,005</b>	<b>100%</b>	<b>\$ 509,018</b>	<b>100%</b>	<b>\$ 134,908</b>	<b>100%</b>	<b>\$ 133,996</b>	<b>100%</b>
<b>Market</b>														
Cable	\$ 56,441	50%	\$ 53,555	42%	\$ 63,419	49%	\$ 65,817	47%	\$ 239,232	47%	\$ 55,950	42%	\$ 64,142	48%
Satellite and Telco	25,030	22%	36,218	28%	28,212	22%	28,455	21%	117,915	23%	35,388	26%	28,193	21%
Broadcast and Media	31,568	28%	37,700	30%	37,870	29%	44,733	32%	151,871	30%	43,570	32%	41,661	31%
<b>Total</b>	<b>\$ 113,039</b>	<b>100%</b>	<b>\$ 127,473</b>	<b>100%</b>	<b>\$ 129,501</b>	<b>100%</b>	<b>\$ 139,005</b>	<b>100%</b>	<b>\$ 509,018</b>	<b>100%</b>	<b>\$ 134,908</b>	<b>100%</b>	<b>\$ 133,996</b>	<b>100%</b>

Note: Data includes a full quarter proforma revenue for Omneon, including certain deferred revenue excluded in reported results, for the periods prior to the three months ended July 1, 2011. We have revised our market categories to combine Telco revenue with the Satellite category. The data for prior periods has been revised to conform with this presentation.



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