



# First Quarter 2014 Earnings Conference Call

April 22, 2014

Patrick Harshman, President & CEO

Carolyn Aver, CFO



- Revenue \$108.0M
  - Up 6% year-over-year
  - 50% International, 50% U.S.
  - 41% Cable, 34% Broadcast and Media, 25% Satellite and Telco
- Bookings \$126.3M
  - Up 15% year-over-year
  - Book-to-bill ratio 1.2
  - Backlog and deferred revenue \$126.4M
- Operating performance
  - Gross margin 53.3% (non-GAAP)
  - EPS \$0.03 (non-GAAP)
  - Cash generated from operations \$11.2M
  - Repurchased 4.4 million shares for \$29.1 million

- Cable
  - Up 14% year-over-year
  - Driven by strong Edge business, up 40% year over year
- Satellite and Telco
  - Up 15% year-over-year
  - Driven by HD encoding refresh
- Broadcast and Media
  - Down 7% year-over-year
  - EMEA revenue soft, impacting Production and Playout products
- U.S. vs. International
  - U.S. up 27% year-over-year, driven by Edge business
  - International down 8% year-over-year, primarily due to EMEA

- Strategic growth plan
  - Capitalize on coming technology cycles: CCAP, next generation encoding, Ultra HD, IP multiscreen
  - Expand global customer base
- Capital structure
  - Repurchased 4.5% of shares outstanding during Q1
- Corporate governance and management
  - Hired Blair King as new Director of Investor Relations

# Targeted Technology Cycles: Converged Cable Edge

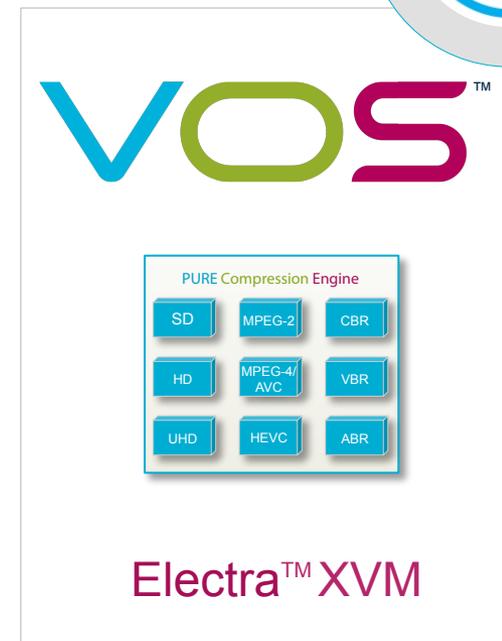
- Phase 1: Downstream CCAP (2014)
  - Early HLIT position encouraging – 19% of downstream port shipments\*
  - Two factors underpinning early success
    - Unique technology for scalable and integrated video and DOCSIS QAMs
    - Accelerating OTT and VOD traffic growth
  - We will no longer highlight individual orders
- Phase 2: Two-way CCAP (2015)
  - CCAP/CMTS market dynamics highlight opportunity



\*Infonetics Research February 2014

# Targeted Technology Cycles: Next Generation Video Encoding

- New innovations in MPEG-2 and MPEG-4 / AVC encoding
- New standard – HEVC encoding
- At NAB launched:
  - VOS™ virtualized software platform
  - PURE compression engine
  - Electra™ XVM, first VOS based product
- Broad customer interest & endorsement



# Targeted Technology Cycles: UltraHD and Multiscreen Delivery

## ■ UltraHD

- Market continues to gain steam
- 4K production becoming mainstream
- Harmonic demonstrations at NAB with  
Broadcom, Sigma Designs, VIXS, Vigor



## ■ Multiscreen

- Partnership with Encoding.com
- Integrated with Adobe Primetime
- Wins in Broadcast, Cable, and Telco



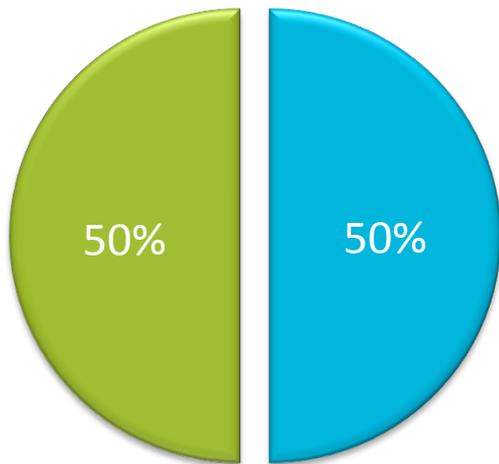
# Q1 2014: Financial Highlights



\$Millions (except GM, OM, & EPS)	Q1 2014	Q4 2013	Q1 2013	Q1 / Q4 Change	Q1 Y / Y Change
Total Net Revenue	\$108.0	\$120.2	\$101.7	-10%	6%
Gross Margin – Non-GAAP	\$57.6	\$65.2	\$51.9	-12%	11%
Gross Margin - GAAP	\$52.3	\$59.6	\$46.2	-12%	13%
Gross Margin % - Non-GAAP	53.3%	54.3%	51.0%	-100bp	230bp
Gross Margin % - GAAP	48.4%	49.6%	45.4%	-120bp	300bp
Operating Expense – Non-GAAP	\$54.1	\$54.5	\$55.2	-1%	-2%
Operating Margin – Non-GAAP	3.2%	8.9%	-3.3%	-570bp	650bp
EPS – Non-GAAP	\$0.03	\$0.08	(\$0.02)	(\$0.05)	\$0.05
EPS – GAAP	(\$0.06)	(\$0.02)	(\$0.08)	(\$0.04)	\$0.02
Bookings	\$126.3	\$113.3	\$110.1	11%	15%
Backlog and Deferred	\$126.4	\$114.0	\$126.3	11%	-

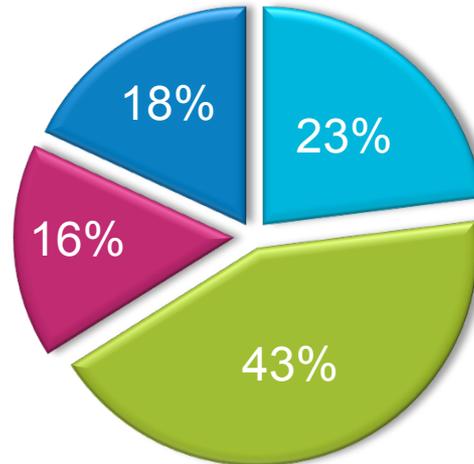
## Revenues \$108.0M

### Geography



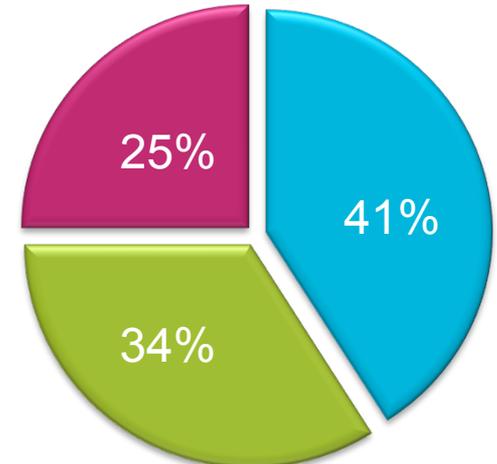
- U.S.
- International

### Products



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

### Markets



- Cable
- Broadcast & Media
- Satellite & Telco

# Q1 2014: Balance Sheet and Cap-Ex Highlights



	\$Millions	
Cash	\$147.7M	Down \$22.9M from Q4
Accounts Receivable	\$77.5M	65 days
Inventories	\$30.3M	6.7 turns
Debt	\$0	
Capital Expenditures	\$3.4M	
Shares Repurchased	\$29.1M	4.4M Shares

- Open market purchases
  - Q1 2014: repurchased 4.4 million shares for \$29.1 million
- Shares outstanding on March 28, 2014 approximately 95.7 million
- Cumulative repurchases of 27.7 million shares for \$167.3 million since 2Q 2012
- \$52.7 million authorized for future purchases as of March 28, 2014

# Q2 2014: Financial Guidance



	Metric
Revenue	\$113M - \$123M
Non-GAAP Gross Margin*	52.5% - 53.5%
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.

- Harmonic will host an Analyst and Investor Day on May 15<sup>th</sup> in New York City
  - 9:30 a.m. to 2:00 p.m. ET
  - NASDAQ MarketSite, 4 Times Square



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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 expenses, income (loss) from operations and net income (loss) (including those amounts as a percentage of revenue), 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.

# Q1 2014: GAAP to Non-GAAP Reconciliations

	Three months ended			
	March 28, 2014			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)
<b>GAAP from continuing operations</b>	\$ 52,312	\$ 59,534	\$ (7,222)	\$ (5,410)
Stock-based compensation in cost of revenue	516	-	516	516
Stock-based compensation in research and development	-	(1,101)	1,101	1,101
Stock-based compensation in selling, general and administrative	-	(2,190)	2,190	2,190
Amortization of intangibles	4,716	(1,950)	6,666	6,666
Restructuring and related charges	79	(149)	228	228
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(2,471)
<b>Non-GAAP from continuing operations</b>	<b>\$ 57,623</b>	<b>\$ 54,144</b>	<b>\$ 3,479</b>	<b>\$ 2,820</b>
<i>As a % of revenue (GAAP)</i>	<i>48.4%</i>	<i>55.1%</i>	<i>-6.7%</i>	<i>-5.0%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>53.3%</i>	<i>50.1%</i>	<i>3.2%</i>	<i>2.6%</i>
<b>Diluted net income (loss) per share from continuing operations:</b>				
Diluted net loss per share from continuing operations-GAAP				\$ (0.06)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.03
<b>Shares used to compute diluted net income (loss) per share from continuing operations:</b>				
GAAP				97,921
Non-GAAP				99,256

# 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)
<b>GAAP from continuing operations</b>	\$ 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)
<b>Non-GAAP from continuing operations</b>	\$ 65,226	\$ 54,539	\$ 10,687	\$ 8,286
<i>As a % of revenue (GAAP)</i>	49.6%	50.4%	-0.8%	-1.8%
<i>As a % of revenue (Non-GAAP)</i>	54.3%	45.4%	8.9%	6.9%
<b>Diluted net income (loss) per share from continuing operations:</b>				
Diluted net loss per share from continuing operations-GAAP				\$ (0.02)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.08
<b>Shares used to compute diluted net income (loss) per share from continuing operations:</b>				
GAAP				100,372
Non-GAAP				101,937

# Q1 2013: GAAP to Non-GAAP Reconciliations

	Three months ended			
	March 29, 2013			
	Gross Profit	Total Operating Expense	Loss from Operations	NetLoss
<b>GAAP from continuing operations</b>	\$ 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
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(4,738)
<b>Non-GAAP from continuing operations</b>	<b>\$ 51,862</b>	<b>\$ 55,232</b>	<b>\$ (3,370)</b>	<b>\$ (2,744)</b>
<i>As a % of revenue (GAAP)</i>	<i>45.4%</i>	<i>60.0%</i>	<i>-14.6%</i>	<i>-9.3%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>51.0%</i>	<i>54.3%</i>	<i>-3.3%</i>	<i>-2.7%</i>
<b>Diluted net loss per share from continuing operations:</b>				
Diluted net loss per share from continuing operations-GAAP				\$ (0.08)
Diluted net loss per share from continuing operations-Non-GAAP				\$ (0.02)
<b>Shares used to compute diluted net loss per share from continuing operations:</b>				
GAAP				115,219
Non-GAAP				115,219



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