



# Fourth Quarter and Year End 2011 Earnings Conference Call

January 31, 2012

Patrick Harshman, President & CEO  
Carolyn Aver, Chief Financial Officer

harmonic<sup>®</sup>

ENABLING THE VIDEO ECONOMY™



**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 2012 business strategy and our Q1 2012 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](http://www.harmonicinc.com).**



## ▶ Revenue \$143.6M

- 4% growth from Q4 2010
- 57% international; 43% domestic
- No single 10% customer; top 10 customers = 34% of total revenue

## ▶ Bookings \$142.0M

- New customer wins across geographies and markets
- No significant “budget flush”

## ▶ Operating performance

- Gross margin 51% (non-GAAP)
- Operating margin 13% (non-GAAP)
- EPS \$0.12 (non-GAAP)
- Cash generated \$21M



## ▶ Revenue \$549.3M (GAAP)

- 8% pro forma\* revenue growth from 2010
- 55% international; 45% domestic
- Top 10 customers = 35% of total revenue

## ▶ Operating performance

- Gross margin 51% (non-GAAP)
- Operating margin 12% (non-GAAP)
- EPS \$0.41 (non-GAAP)
- Cash generated \$41M

*\*Includes full quarter pro forma revenue for Omneon for all periods.*



- ▶ **International opportunity**
- ▶ **Broadcast & Media opportunity**
- ▶ **New video applications and services**
  - Traditional networks
  - Over-the-top



## ▶ Strong International growth

- International revenue up 14% over 2010 pro forma\* revenue
- 55% of total 2011 revenue
- Competitive momentum across product categories and geographies
- Expanding worldwide opportunities
  - High definition production and delivery
  - New on-demand and multiscreen services
  - Pay TV subscriber growth in emerging markets

*\*Includes full quarter pro forma revenue for Omneon for all periods.*



## ▶ Strong Broadcast & Media growth

- Broadcast & Media revenue up 17% from 2010 pro forma\* revenue
- 32% of total 2011 revenue
- Wins span traditional and new media applications
  - Video Processing technology breadth and leadership
  - Omneon customer relationships and technology synergies
- Expanding worldwide opportunities
  - Proliferation of content and global media outlets
  - Growing adoption of higher-performance HD and IP technologies

*\*Includes full quarter pro forma revenue for Omneon for all periods.*



## ▶ New applications growth – traditional video networks

- Video processing revenue up 17% from 2010
  - High definition
  - IPTV
  - In-home multiscreen
- EdgeQAM market leadership, with 40% share\*
  - Next-generation dense QAM technology
  - VOD, nPVR and modular CMTS wins
- Services and Support revenue up 11% from 2010\*\*
  - Represented 13% of 2011 revenue

\* *Infonetics Research, December 13, 2011*

\*\* *Includes full quarter pro forma revenue for Omneon for all periods.*



## ▶ **New applications growth – over-the-top video**

- Strategic wins with leading media and service provider companies
  - Transcoding for leading movie streaming services
  - Cloud transcoding for major Hollywood studio
  - Live streaming of top-tier sports programming
- Newest products uniquely enable HD over-the-top
  - Electra 9000 and ProMedia for both Connected TV and Mobile/Web apps
  - Integrated MediaGrid storage further extends HD OTT solution
- Well positioned for further growth
  - **Proliferation of video content and media outlets +**
  - **Increasing demand for higher video quality in every format +**
  - **Internet and mobile bandwidth constraints = Harmonic sweet spot**



## ▶ **Exploiting global growth opportunities**

- Greater share in growing International markets
- Deeper relationships with leading media companies
- Expanded relationships with leading service providers

## ▶ **Extending technology leadership position**

- Video production, post-production and content management
- Internet delivery of very high-quality video
- New integrated products with broader functionality

## ▶ **Enhancing operational execution**

- Targeted R&D investment in high growth opportunities
- Carefully managing operating expenses



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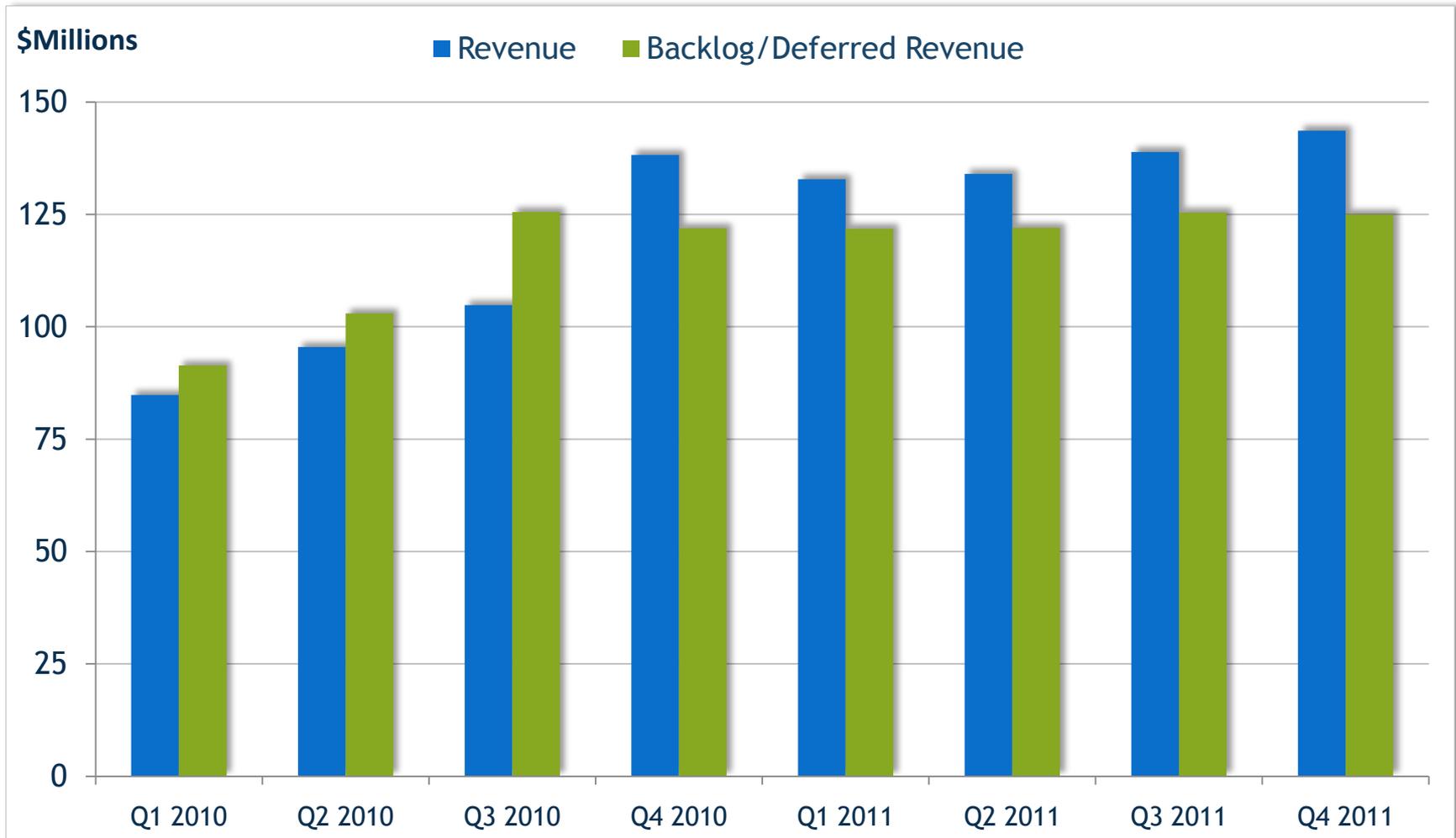
January 31, 2012  
Carolyn Aver, CFO

# Q4 2011 Financial Highlights



\$Millions (except GM, OM and EPS)	Q4 2011	Q3 2011	Q4 2010	Q4/Q3 Change	Q4 Y/Y Change
Total Net Revenue	\$143.6	\$138.9	\$138.2	3%	4%
Gross Margin % - Non-GAAP	51%	51%	51%	20 bp	30 bp
Gross Margin % - GAAP	47%	46%	44%	50 bp	220 bp
Operating Expense - Non-GAAP	\$53.9	\$53.7	\$52.2	0%	3%
Operating Margin - Non-GAAP	13%	12%	13%	140 bp	60 bp
EPS - Non-GAAP	\$0.12	\$0.11	\$0.11	\$0.01	\$0.01
EPS - GAAP	\$0.04	\$0.03	-\$0.12	\$0.01	\$0.16
Bookings	\$142.0	\$141.4	\$134.8	0%	5%
Backlog and Deferred	\$125.0	\$125.4	\$121.9	0%	3%

# Quarterly GAAP Revenue and Backlog

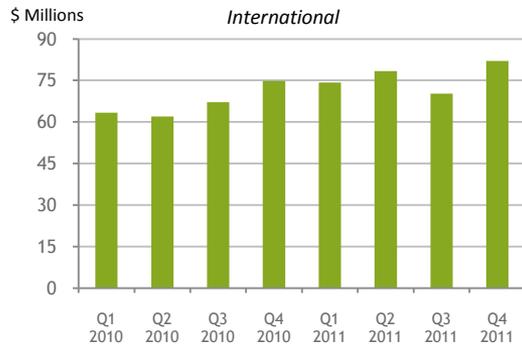
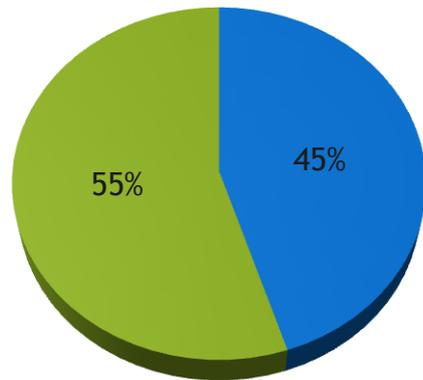


*Omneon contributed from completion of acquisition on September 15, 2010*



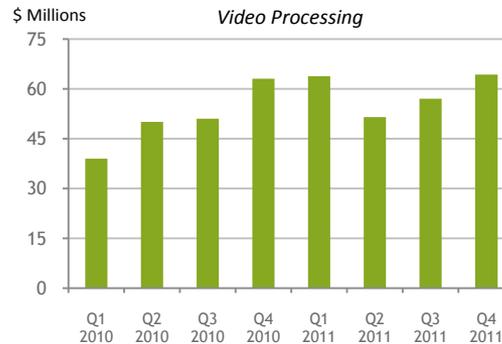
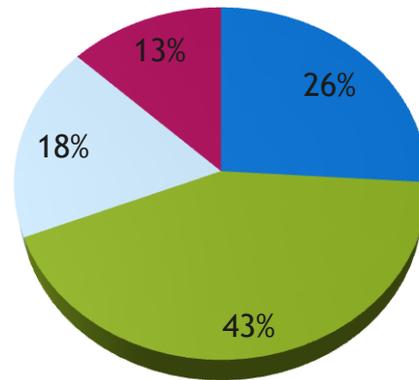
## GEOGRAPHY

International U.S.



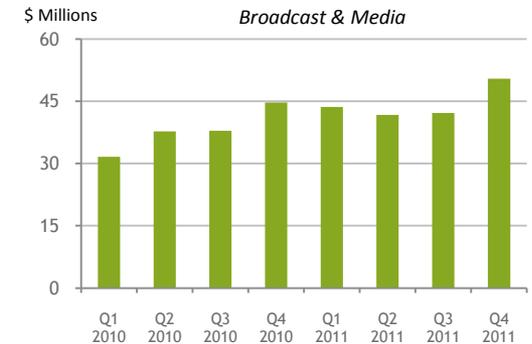
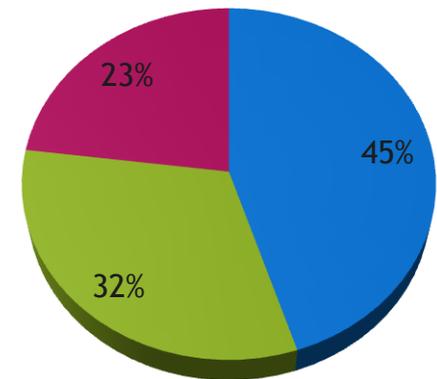
## PRODUCTS

Edge & Access Production & Playout  
Video Processing Services



## MARKETS

Cable Satellite & Telco  
Broadcast & Media





	\$Millions	
Cash	\$161.8	Up \$41.5M Y/Y
Accounts Receivable	\$109.9	70 days
Inventories	\$70.6	4.0 turns
Debt	\$0	
Capital Expenditures	\$4.9	\$17.3M for 2011



	Metric
Q1 Revenue	\$132M - \$142M
Non-GAAP Gross Margin*	50% - 52%
Non-GAAP Operating Expenses*	\$55M - \$57M
Non-GAAP Tax Rate**	25%

\*Excludes charges for stock-based compensation and the amortization of intangibles.  
\*\*Assumes no extension to the R&D tax credit



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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 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, amortization of intangibles and the fair value write-up of acquired inventories sold.

# GAAP to Non-GAAP Reconciliation—Q4 2011



	Quarter ended December 31,					
	2011			2010		
	Gross Profit	Operating Expense	Net Income	Gross Profit	Operating Expense	Net Income (Loss)
	(In thousands, except per share amounts)					
GAAP	\$ 66,870	\$ 60,243	\$ 4,327	\$ 61,381	\$ 64,369	\$ (13,738)
Cost of revenue related to stock-based compensation expense	723	-	723	676	-	676
Purchase accounting fair value adjustments related to inventory	-	-	-	2,061	-	2,061
Cost of revenue related to severance costs	-	-	-	63	-	63
Research and development expense related to stock-based compensation expense	-	(1,661)	1,661	-	(1,578)	1,578
Research and development expense related to severance costs	-	-	-	-	(47)	47
Selling, general and administrative expense related to stock-based compensation expense	-	(2,430)	2,430	-	(3,105)	3,105
Selling, general and administrative expense related to excess facility costs and severance costs	-	-	-	-	(3,481)	3,481
Selling, general and administrative expense related to anticipated litigation settlement	-	-	-	-	(863)	863
Acquisition costs related to Omneon	-	-	-	-	(175)	175
Amortization of intangibles	5,423	(2,230)	7,653	5,636	(2,885)	8,521
Discrete tax items and adjustments	-	-	(2,751)	-	-	5,633
Non-GAAP	<u>\$ 73,016</u>	<u>\$ 53,922</u>	<u>\$ 14,043</u>	<u>\$ 69,817</u>	<u>\$ 52,235</u>	<u>\$ 12,465</u>
GAAP net income (loss) per share - basic			<u>\$ 0.04</u>			<u>\$ (0.12)</u>
GAAP net income (loss) per share - diluted			<u>\$ 0.04</u>			<u>\$ (0.12)</u>
Non-GAAP net income per share - basic			<u>\$ 0.12</u>			<u>\$ 0.11</u>
Non-GAAP net income per share - diluted			<u>\$ 0.12</u>			<u>\$ 0.11</u>
Shares used in per share calculation - basic			<u>116,123</u>			<u>112,062</u>
Shares used in per share calculation - diluted, GAAP			<u>116,664</u>			<u>112,062</u>
Shares used in per share calculation - diluted, Non-GAAP			<u>116,664</u>			<u>113,670</u>

# Historic Pro Forma Revenue Information



(Unaudited)

(In thousands, except percentages)

	2010Q1		2010Q2		2010Q3		2010Q4		2010						
<b>Product</b>															
Video Processing	\$	38,890	34%	\$	49,998	39%	\$	51,005	39%	\$	63,005	45%	\$	202,898	40%
Production and Playout		24,828	22%		26,589	21%		26,024	20%		27,699	20%		105,140	21%
Edge and Access		35,544	32%		34,263	27%		34,712	27%		30,787	22%		135,306	26%
Services and Support		13,777	12%		16,623	13%		17,760	14%		17,514	13%		65,674	13%
Total	\$	<u>113,039</u>	100%	\$	<u>127,473</u>	100%	\$	<u>129,501</u>	100%	\$	<u>139,005</u>	100%	\$	<u>509,018</u>	100%
<b>Geography</b>															
United States	\$	49,632	44%	\$	65,456	51%	\$	62,415	48%	\$	64,230	46%	\$	241,733	47%
International		63,407	56%		62,017	49%		67,086	52%		74,775	54%		267,285	53%
Total	\$	<u>113,039</u>	100%	\$	<u>127,473</u>	100%	\$	<u>129,501</u>	100%	\$	<u>139,005</u>	100%	\$	<u>509,018</u>	100%
<b>Market</b>															
Cable	\$	56,441	50%	\$	53,555	42%	\$	63,419	49%	\$	65,817	47%	\$	239,232	47%
Satellite and Telco		25,030	22%		36,218	28%		28,212	22%		28,455	21%		117,915	23%
Broadcast and Media		31,568	28%		37,700	30%		37,870	29%		44,733	32%		151,871	30%
Total	\$	<u>113,039</u>	100%	\$	<u>127,473</u>	100%	\$	<u>129,501</u>	100%	\$	<u>139,005</u>	100%	\$	<u>509,018</u>	100%
<b>2011Q1</b>															
<b>Product</b>															
Video Processing	\$	63,758	47%	\$	51,525	38%	\$	57,027	41%	\$	64,314	45%	\$	236,624	43%
Production and Playout		22,408	17%		25,453	19%		26,619	19%		25,837	18%		100,317	18%
Edge and Access		31,176	23%		40,178	30%		38,308	28%		32,218	22%		141,880	26%
Services and Support		17,566	13%		16,840	13%		16,917	12%		21,261	15%		72,584	13%
Total	\$	<u>134,908</u>	100%	\$	<u>133,996</u>	100%	\$	<u>138,871</u>	100%	\$	<u>143,630</u>	100%	\$	<u>551,405</u>	100%
<b>Geography</b>															
United States	\$	60,608	45%	\$	55,578	41%	\$	68,718	49%	\$	61,647	43%	\$	246,551	45%
International		74,300	55%		78,418	59%		70,153	51%		81,983	57%		304,854	55%
Total	\$	<u>134,908</u>	100%	\$	<u>133,996</u>	100%	\$	<u>138,871</u>	100%	\$	<u>143,630</u>	100%	\$	<u>551,405</u>	100%
<b>Market</b>															
Cable	\$	55,950	42%	\$	64,142	48%	\$	62,722	45%	\$	62,526	44%	\$	245,340	45%
Satellite and Telco		35,388	26%		28,193	21%		33,974	25%		30,686	21%		128,241	23%
Broadcast and Media		43,570	32%		41,661	31%		42,175	30%		50,418	35%		177,824	32%
Total	\$	<u>134,908</u>	100%	\$	<u>133,996</u>	100%	\$	<u>138,871</u>	100%	\$	<u>143,630</u>	100%	\$	<u>551,405</u>	100%

Note:

Data includes a full quarter proforma revenue for Omneon, including certain deferred revenue excluded in reported results, for the periods prior to 2011Q2.



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