HARMONIC INC
Form 10-Q
November 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended October 1, 2010

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 000-25826

HARMONIC INC.
(Exact name of registrant as specified in its charter)

Delaware	**77-0201147**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

4300 North First Street
San Jose, CA 95134
(408) 542-2500
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X]	Accelerated filer [ ]	Non-accelerated filer [ ]	Smaller reporting company [ ]
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The number of shares outstanding of the registrant s Common Stock, $.001 par value, was 111,940,032 on October 29, 2010.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARMONIC INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except par value amounts)	October 1, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 70,523	$ 152,477
Short-term investments	39,595	118,593
Accounts receivable, net of allowances of $5,528 and $5,163	92,438	64,838
Inventories	57,176	35,066
Deferred income taxes	39,923	26,503
Prepaid expenses and other current assets	24,873	20,821
Total current assets	324,528	418,298
Property and equipment, net	38,752	25,941
Goodwill	212,475	63,953
Intangibles, net	125,461	25,265
Other assets	1,989	22,847
Total assets	$ 703,205	$ 556,304
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 28,465	$ 22,065
Income taxes payable	2,808	609
Deferred revenue	41,412	32,855
Accrued liabilities	40,045	37,584
Total current liabilities	112,730	93,113
Accrued excess facilities costs, long-term		58
Income taxes payable, long-term	41,768	43,948
Financing liability, long-term		6,908
Deferred income taxes, long-term	15,633	
Other long-term liabilities	4,473	4,804
Total liabilities	174,604	148,831

Commitments and contingencies (Notes 15 and 16)		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000 shares authorized; no shares issued or outstanding		
Common stock, $0.001 par value, 150,000 shares authorized; 111,816 and 96,110 shares issued and outstanding as of October 1, 2010 and December 31, 2009, respectively	112	96
Capital in excess of par value	2,392,101	2,279,945
Accumulated deficit	(1,863,130)	(1,872,533)
Accumulated other comprehensive loss	(482)	(35)
Total stockholders equity	528,601	407,473
Total liabilities and stockholders equity	$ 703,205	$ 556,304

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended October 1, 2010	Three Months Ended October 2, 2009	Nine Months Ended October 1, 2010	Nine Months Ended October 2, 2009
Product revenue	$ 90,597	$72,553	$249,292	$202,973
Service revenue	14,187	11,308	35,857	29,936
Net revenue	104,784	83,861	285,149	232,909
Product cost of revenue	53,019	44,477	140,086	126,617
Service cost of revenue	4,233	3,304	11,044	11,281
Total cost of revenue	57,252	47,781	151,130	137,898
Gross profit	47,532	36,080	134,019	95,011
Operating expenses:				
Research and development	19,002	15,879	52,946	45,825
Selling, general and administrative	25,999	19,405	70,917	61,431
Amortization of intangibles	959	1,367	2,026	3,289
Total operating expenses	45,960	36,651	125,889	110,545
Income (loss) from operations	1,572	(571)	8,130	(15,534)
Interest income, net	165	583	974	2,764
Other expense, net	(405)	(212)	(903)	(893)
Income (loss) before income taxes	1,332	(200)	8,201	(13,663)
Provision for (benefit from) income taxes	1,693	(2,777)	(1,202)	10,523

Net income (loss)	$ (361)	$ 2,577	$ 9,403	$ (24,186)
Net income (loss) per share				
Basic	$ (0.00)	$ 0.03	$ 0.10	$ (0.25)
Diluted	$ (0.00)	$ 0.03	$ 0.10	$ (0.25)
Weighted average shares				
Basic	100,246	96,104	97,975	95,742
Diluted	100,246	96,732	98,672	95,742

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Nine Months Ended October 1, 2010	Nine Months Ended October 2, 2009
Cash flows from operating activities:		
Net income (loss)	$ 9,403	$ (24,186)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of intangibles	8,904	9,222
Depreciation	6,696	6,299
Stock-based compensation	10,180	7,637
Net loss on disposal of fixed assets	73	191
Deferred income taxes	(57)	
Other non-cash adjustments, net	1,344	1,995
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(10,531)	(303)
Inventories	(11,088)	12,098
Prepaid expenses and other assets	(1,786)	9,064
Accounts payable	(1,898)	(1,279)
Deferred revenue	994	(887)
Income taxes payable	(104)	2,156
Accrued excess facilities costs	(5,230)	(4,446)
Accrued and other liabilities	(5,688)	(27,332)
Net cash provided by (used in) operating activities	1,212	(9,771)
Cash flows used in investing activities:		
Purchases of investments	(39,035)	(101,221)
Proceeds from maturities of investments	83,689	119,001
Proceeds from sales of investments	32,609	27,240
Acquisition of property and equipment	(29,837)	(6,105)
Acquisition of Rhozet		(453)
Acquisition of Scopus, net of cash acquired		(63,053)
Acquisition of Omneon, net of cash acquired	(153,254)	
Net cash used in investing activities	(105,828)	(24,591)
Cash flows from financing activities:		

Proceeds from lease financing liability	18,833	
Proceeds from issuance of common stock, net	3,918	4,239
Net cash provided by financing activities	22,751	4,239
Effect of exchange rate changes on cash and cash equivalents	(89)	207
Net decrease in cash and cash equivalents	(81,954)	(29,916)
Cash and cash equivalents at beginning of period	152,477	179,891
Cash and cash equivalents at end of period	$ 70,523	$ 149,975
Supplemental disclosure of cash flow information:		
Income tax payments, net	$ 984	$ 2,598
Non-cash investing and financing activities:		
Issuance of restricted common stock for Rhozet acquisition	$	$ 1,870
Issuance of restricted common stock for Omneon acquisition	$ 95,938	$
Fair value of vested portion of stock options and restricted stock units assumed in connection with the Omneon acquisition	$ 2,125	$

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HARMONIC INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) which Harmonic Inc. (Harmonic, or the Company) considers necessary for a fair presentation of the results of operations for the interim periods covered and the consolidated financial condition of the Company at the date of the balance sheets. This Quarterly Report on Form 10-Q should be read in conjunction with the Company s audited consolidated financial statements contained in the Company s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 1, 2010. The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2010, or any other future period. The Company s fiscal quarters are based on 13-week periods, except for the fourth quarter which ends on December 31.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Use of Estimates. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications. The Company has reclassified certain prior period balances to conform to the current year presentation. These reclassifications have no impact on previously reported total assets, total liabilities, stockholders equity, results of operations or cash flows.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued revised guidance for revenue recognition with multiple deliverables. This guidance impacts the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. Additionally, this guidance modifies the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. This revised guidance is effective beginning in the first quarter of fiscal year 2011; however early adoption is permitted. The Company is currently evaluating the potential impact, if any, of the adoption of the revised accounting guidance on its consolidated results of operations, financial condition and cash flows.

In October 2009, the FASB issued revised guidance for the accounting for certain revenue arrangements that include software elements. This guidance amends the scope of pre-existing software revenue guidance by removing from the guidance non-software components of tangible products and certain software components of tangible products. This revised guidance is effective beginning in the first quarter of fiscal year 2011; however early adoption is permitted. The Company is currently evaluating the potential impact, if any, of the adoption of the revised accounting guidance on its consolidated results of operations, financial condition and cash flows.

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than one net number). The updated guidance also requires that an entity provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for

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fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of the interim reporting requirements by the Company in the first quarter of 2010 did not have a material impact on its consolidated results of operations or financial condition.

NOTE 3: ACQUISITIONS

Omneon

On September 15, 2010, Harmonic completed the acquisition of 100% of the equity interests of Omneon, Inc., a privately-held company organized under the laws of Delaware and headquartered in Sunnyvale, California. Omneon develops and supports a range of video servers, active storage systems and related software applications that media companies use to simultaneously ingest, process, store, manage and deliver digital media in a wide range of formats. When used for television production and on-air operations, the products are designed to provide continuous real-time record and playback capabilities as well as file-based access to and delivery of digital media content. Omneon s products include Spectrum video servers, MediaGrid active storage systems, Media Application server and other software applications which were initially designed for, and have been deployed mostly by, broadcasters that use Omneon s products for the production and transmission of television content.

The acquisition of Omneon is intended to strengthen Harmonic s competitive position in the digital media market and to broaden the Company s relationships with customers who produce and distribute digital video content, such as broadcasters, cable channels and other major owners of content. The acquisition is also intended to broaden Harmonic s technology and product lines with digital storage and playout solutions which complement Harmonic s existing video processing products. In addition, the acquisition provided an assembled workforce, the implicit value of future cost savings as a result of combining entities, and is expected to provide Harmonic with future unidentified new products and technologies. These opportunities were significant factors to the establishment of the purchase price, which exceeded the fair value of Omneon s net tangible and intangible assets acquired resulting in goodwill of approximately $147.8 million that was recorded in connection with this acquisition.

The purchase price, net of $40.5 million of cash acquired, was $251.3 million, which consisted of (i) approximately $153.3 million in cash, net of cash acquired, (ii) 14.2 million shares of Harmonic common stock with a total fair value of approximately $95.9 million, based on the price of Harmonic common stock at the time of close, and (iii) approximately $2.1 million representing the fair value attributed to shares of Omneon equity awards which Harmonic assumed for which services had already been rendered as of the close of the acquisition. The cash portion of the purchase price was paid from existing cash balances and is subject to a post-closing adjustment based on Omneon s working capital. The Company also incurred a total of $5.7 million of transaction expenses, which were expensed as selling, general and administrative expenses in the second and third quarters of 2010.

The assets and liabilities of Omneon were recorded at fair value at the date of acquisition. The Company will continue to evaluate certain assets and liabilities as new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. Changes to the assets and liabilities recorded may result in a corresponding adjustment to goodwill and the measurement period shall not exceed one year from the acquisition date. Further, any associated restructuring activities will be expensed in future periods and not recorded through purchase accounting as previously done under prior accounting guidance. There are no contingent consideration arrangements in connection with the acquisition.

The results of operations of Omneon are included in Harmonic s Consolidated Statements of Operations from September 15, 2010, the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

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(In thousands)	
Cash acquired	$ 40,485
Accounts receivable (Gross amount due from accounts receivable of $17,760)	17,055
Inventory	11,010
Fixed assets	12,391
Deferred income tax assets	17,960
Other tangible assets acquired	2,653
Intangible assets:	
Existing technology	50,800
In-process technology	9,000
Patents/core technology	9,800
Customer contracts and related relationships	29,200
Trade names/trademarks	4,000
Maintenance agreements and related relationships	5,500
Order backlog	800
Goodwill	147,756
Total assets acquired	358,410
Accounts payable	(6,829)
Deferred revenue	(6,399)
Deferred income tax liabilities	(42,052)
Other accrued liabilities	(11,328)
Net assets acquired	291,802
Less: cash acquired	(40,485)
Net purchase price	$251,317

The purchase price set forth in the table above was allocated based on the fair value of the tangible and intangible assets acquired and liabilities assumed as of September 15, 2010. The Company used an overall discount rate of 15% to estimate the fair value of the intangible assets acquired, which was derived based on financial metrics of comparable companies operating in Omneon s industry. In determining the appropriate discount rates to use in valuing each of the individual intangible assets, the Company adjusted the overall discount rate giving consideration to the specific risk factors of each asset. The following methods were used to value the identified intangible assets:

The fair value of the existing technology assets acquired was established based on their highest and best use by a market participant using the Income Approach. The Income Approach included an analysis of the markets, cash flows and risks associated with achieving such cash flows to calculate the fair value;

As of the acquisition date, Omneon was developing new versions and incremental improvements to its 3G MediaPort product, which is expected to be used in the Spectrum product line once completed. The in-process project was at a stage of development that required further research and development to determine technical feasibility and commercial viability. The fair value of the in-process technology assets acquired was based on the valuation premise that the assets would be In-Use using a discounted cash flow model;

The fair value of patents/core technology assets acquired was established based on a variation of the Income Approach called the Profit Allocation Method . In the Profit Allocation Method, we estimated the value of the patents/core technology by capitalizing the profits expected to be saved because Harmonic owns the technology;

The fair value of the customer contracts and related relationships assets acquired was based on the Income Approach;

The fair value of trade names/trademarks assets acquired was established based on the Profit Allocation Method;

The fair value of the maintenance agreements and related relationships assets acquired was based on the Income Approach; and

The fair value of backlog acquired was established based on the Income Approach.

Identified intangible assets are being amortized over the following useful lives:

Existing technology is estimated to have a useful life of four years;

In-process technology will be amortized upon completion over its projected remaining useful life as assessed on the completion date. The completion of the in-process project is expected within the next twelve months;

Patents/core technology are being amortized over their estimated useful life of four years;

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Customer contracts and related relationships are being amortized over their estimated useful life of six years;

Trade name/trademarks are being amortized over their estimated useful lives of four years;

Maintenance agreements and related relationships are being amortized over their estimated useful life of six years; and

Order backlog is being amortized over its estimated useful life of three and one half months.

The existing technology, patents/core technology, customer contracts and related relationships, maintenance agreements and related relationships, trade name/trademarks and backlog are being amortized using the straight-line method which reflects the future projected cash flows.

The residual purchase price of $147.8 million has been recorded as goodwill. The goodwill resulting from this acquisition is not deductible for federal tax purposes.

Substantially all unvested stock options and unvested restricted stock units issued by Omneon and outstanding at closing were assumed by Harmonic. The exchange of stock-based compensation awards was treated as a modification under current accounting guidance. The calculation of the fair value of the exchanged awards immediately before and after the modification did not result in any significant incremental fair value. The fair value of Harmonic s stock options and restricted stock units issued to Omneon employees was $17.3 million, which was determined using the Black-Scholes option pricing model, of which $2.1 million represents purchase consideration and $15.1 million will be recorded as compensation expense over the weighted average service period of 2.5 years.

For the period from closing through October 1, 2010, Omneon products contributed revenues of $5.6 million and a net operating loss of $0.9 million.

Scopus

On March 12, 2009, Harmonic completed the acquisition of 100% of the equity interests of Scopus Video Networks Ltd., or Scopus, a publicly traded company based in Israel. Scopus was engaged in the development and support of digital video networking products that allowed network operators to transmit, process, and manage digital video content. Scopus primary products included integrated receivers/decoders (IRD), intelligent video gateways (IVG), and encoders. In addition, Scopus marketed multiplexers, network management systems (NMS), and other ancillary technology to its customers.

The acquisition of Scopus strengthened Harmonic s technology and market leadership, particularly in the broadcast contribution and distribution markets. The acquisition extended Harmonic s diversification strategy, providing it with an expanded international sales force and global customer base, particularly in video broadcast, contribution and distribution markets, as well as complementary video processing technology and expanded research and development capability. In addition, the acquisition provided an assembled workforce, the implicit value of future cost savings as a result of combining entities, and is expected to provide Harmonic with future unidentified new products and technologies. These opportunities were significant factors to the establishment of the purchase price, which exceeded the fair value of Scopus net tangible and intangible assets acquired resulting in goodwill of approximately $22.8 million that was recorded in connection with this acquisition.

The purchase price, net of $23.3 million of cash acquired, was $63.1 million, which was paid from existing cash balances. The Company also incurred a total of $3.4 million of transaction expenses, which were expensed as selling, general and administrative expenses in the first quarter of 2009.

The assets and liabilities of Scopus were recorded at fair value at the date of acquisition. Further, any associated restructuring activities will be expensed in future periods and not recorded through purchase accounting as previously done under prior accounting guidance. Subsequent to the acquisition, the Company recorded expenses of $8.2 million in the year ended December 31, 2009, primarily for excess and obsolete inventories related to product discontinuances and severance costs.

The results of operations of Scopus are included in Harmonic s Consolidated Statements of Operations from March 12, 2009, the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

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(In thousands)	
Cash acquired	$ 23,316
Investments	1,899
Accounts receivable (Gross amount due from accounts receivable of $6,977)	6,308
Inventory	15,899
Fixed assets	4,280
Other tangible assets acquired	2,312
Intangible assets:	
Existing technology	10,100
In-process technology	2,400
Patents/core technology	3,500
Customer contracts and related relationships	4,000
Trade names/trademarks	2,100
Maintenance agreements and related relationships	1,000
Order backlog	2,000
Goodwill	22,847
Total assets acquired	101,961
Accounts payable	(2,963)
Deferred revenue	(336)
Other accrued liabilities	(12,293)
Net assets acquired	86,369
Less: cash acquired	(23,316)
Net purchase price	$ 63,053

The purchase price set forth in the table above was based on the fair value of the tangible and intangible assets acquired and liabilities assumed as of March 12, 2009. The Company used an overall discount rate of 16% to estimate the fair value of the intangible assets acquired, which was derived based on financial metrics of comparable companies operating in Scopus industry. In determining the appropriate discount rates to use in valuing each of the individual intangible assets, the Company adjusted the overall discount rate giving consideration to the specific risk factors of each asset. The following methods were used to value the identified intangible assets:

The fair value of the existing technology assets acquired was established based on their highest and best used by a market participant using the Income Approach. The Income Approach included an analysis of the markets, cash flows and risks associated with achieving such cash flows to calculate the fair value. As of the acquisition date, Scopus was developing new versions and incremental improvements to its IRD, encoder and IVG products;

The in-process projects were at a stage of development that required further research and development to determine technical feasibility and commercial viability. The fair value of the in-process technology assets acquired was based on the valuation premise that the assets would be In-Use using a discounted cash flow model;

The fair value of patents/core technology assets acquired was established based on a variation of the Income Approach called the Profit Allocation Method . In the Profit Allocation Method, we estimated the value of the patents/core technology by capitalizing the profits saved because Harmonic owns the technology;

The fair value of the customer contracts and related relationships assets acquired was based on the Income Approach;

The fair value of trade names/trademarks assets acquired was established based on the Profit Allocation Method;

The fair value of the maintenance agreements and related relationships assets acquired was based on the Income Approach; and

The fair value of backlog acquired was established based on the Cost Savings Approach.

Identified intangible assets are being amortized over the following useful lives:

Existing technology is estimated to have a useful life between three years and five years;

In-process technology is being amortized upon completion over its projected remaining useful life as assessed on the completion date. Three of the in-process projects were completed in the fourth quarter of 2009 and the remaining three projects were completed in the first quarter of 2010. The completed technology is estimated to have useful lives between three and six years;

Patents/core technology are being amortized over their useful life of four years;

Customer contracts and related relationships are being amortized over their useful life of between four years and five years;

Trade name/trademarks are being amortized over their estimated useful lives of five years;

Maintenance agreements and related relationships are being amortized over their useful life of four years; and

Order backlog was amortized over its estimated useful life of six months.

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The existing technology, patents/core technology, customer contracts, maintenance agreements and related relationships, trade name/trademarks and backlog are being amortized using the straight-line method which reflects the future projected cash flows.

The residual purchase price of $22.8 million has been recorded as goodwill. The goodwill as a result of this acquisition is not deductible for federal tax purposes.

For the three month period ended October 2, 2009, Scopus products contributed revenues of $6.9 million and a net operating loss of $1.5 million. For the period from March 12, 2009 to October 2, 2009, Scopus products contributed revenues of $14.5 million and a net operating loss of $13.7 million.

Pro Forma Financial Information

The unaudited pro forma financial information presented below for the 2009 periods summarizes the combined results of operations as if the Scopus and Omneon acquisitions had been completed on January 1, 2009. The unaudited pro forma financial information for the three months ended October 2, 2009 combines the results for Harmonic for the three months ended October 2, 2009 and the historical results of Omneon for the three months ended September 30, 2009. The unaudited pro forma financial information for the nine months ended October 2, 2009 combines the results for Harmonic for the nine months ended October 2, 2009, the historical results of Scopus through March 12, 2009, the date of acquisition and the historical results of Omneon for the nine months ended September 30, 2009.

The unaudited pro forma financial information presented below for the 2010 periods summarizes the combined results of operations as if the Omneon acquisition had been completed on January 1, 2010. The unaudited pro forma financial information for the three and nine months ended October 1, 2010 combines the results for Harmonic for the three and nine months ended October 1, 2010 and the historical results of Omneon through September 15, 2010, the date of acquisition.

The pro forma financial information is presented for informational purposes only and does not purport to be indicative of what would have occurred had the merger actually been completed on such dates or of results which may occur in the future.