

HARMONIC INC  
Form 10-Q  
November 06, 2015  
Table of Contents

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

---

Form 10-Q

---

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended October 2, 2015

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 (I.R.S. Employer  
incorporation or organization) 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  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  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  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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

The number of shares of the registrant’s Common Stock, \$.001 par value, outstanding on November 2, 2015 was 87,072,661.

---

Table of Contents

TABLE OF CONTENTS

PART I

<u>ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	<u>3</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>26</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>36</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>38</u>

PART II

<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>39</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>39</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>58</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>58</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>58</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>58</u>
<u>ITEM 6. EXHIBITS</u>	<u>59</u>
<u>SIGNATURES</u>	<u>60</u>

Table of Contents

## PART I

## FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HARMONIC INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share data)

	October 2, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$61,571	\$73,032
Short-term investments	25,990	31,847
Accounts receivable, net	64,128	74,144
Inventories	39,873	32,747
Deferred income taxes, short-term	3,375	3,375
Prepaid expenses and other current assets	31,709	17,539
Total current assets	226,646	232,684
Property and equipment, net	26,619	27,221
Goodwill	197,825	197,884
Intangibles, net	5,628	10,599
Other assets	10,190	12,130
Total assets	\$466,908	\$480,518
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$16,626	\$15,318
Income taxes payable	176	893
Deferred revenue	43,350	38,601
Accrued liabilities	29,139	35,118
Total current liabilities	89,291	89,930
Income taxes payable, long-term	4,296	4,969
Deferred tax liabilities, long-term	3,095	3,095
Other non-current liabilities	10,358	10,711
Total liabilities	107,040	108,705
Commitments and contingencies (Note 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; 87,477 and 87,700 shares issued and outstanding at October 2, 2015 and December 31, 2014, respectively	87	88
Additional paid-in capital	2,259,757	2,261,952
Accumulated deficit	(1,896,709)	(1,888,247)
Accumulated other comprehensive loss	(3,267)	(1,980)
Total stockholders' equity	359,868	371,813
Total liabilities and stockholders' equity	\$466,908	\$480,518

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

Table of ContentsHARMONIC INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Revenue:				
Product	\$57,245	\$84,583	\$215,165	\$259,371
Services	26,060	23,478	75,259	66,311
Total net revenue	83,305	108,061	290,424	325,682
Cost of revenue:				
Product	23,584	41,802	95,021	134,336
Services	13,490	12,831	39,759	35,789
Total cost of revenue	37,074	54,633	134,780	170,125
Total gross profit	46,231	53,428	155,644	155,557
Operating expenses:				
Research and development	21,679	22,803	65,824	70,176
Selling, general and administrative	28,966	32,114	91,443	98,640
Amortization of intangibles	1,446	1,661	4,338	5,329
Restructuring and related charges	397	388	626	821
Total operating expenses	52,488	56,966	162,231	174,966
Loss from operations	(6,257)	) (3,538	) (6,587	) (19,409
Interest income, net	30	47	102	191
Other income (expense), net	148	(261)	) (299	) (376
Loss on impairment of long-term investment	—	—	(2,505	) —
Loss before income taxes	(6,079)	) (3,752	) (9,289	) (19,594
(Benefit from) provision for income taxes	(1,268)	) (4,830	) (827	) 21,800
Net income (loss)	\$(4,811)	) \$1,078	\$(8,462)	) \$(41,394)
Net income (loss) per share:				
Basic	\$(0.05)	) \$0.01	\$(0.10)	) \$(0.44)
Diluted	\$(0.05)	) \$0.01	\$(0.10)	) \$(0.44)
Shares used in per share calculation:				
Basic	87,991	90,618	88,359	94,113
Diluted	87,991	91,800	88,359	94,113

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

Table of Contents

## HARMONIC INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands)

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Net income (loss)	\$ (4,811	) \$ 1,078	\$ (8,462	) \$ (41,394
Other comprehensive income (loss) before tax:				
Change in unrealized losses on cash flow hedges:				
Unrealized loss arising during the period	(550	) —	(218	) —
Gains reclassified into earnings	(127	) —	(314	) —
	(677	) —	(532	) —
Change in unrealized gains (loss) on available-for-sale securities:	(928	) (308	) 17	(333
Change in foreign currency translation adjustments	(364	) (670	) (766	) (440
Other comprehensive loss before tax	(1,969	) (978	) (1,281	) (773
Provision for (benefit from) income taxes	12	(7	) 6	(12
Other comprehensive loss, net of tax	(1,981	) (971	) (1,287	) (761
Total comprehensive income (loss)	\$ (6,792	) \$ 107	\$ (9,749	) \$ (42,155

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

Table of Contents

HARMONIC INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited, in thousands)

	Nine months ended	
	October 2, 2015	September 26, 2014
Cash flows from operating activities:		
Net loss	\$(8,462	) \$(41,394
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of intangibles	4,971	18,378
Depreciation	10,143	12,641
Stock-based compensation	11,845	12,720
Loss on impairment of long-term investment	2,505	—
Deferred income taxes, net	—	31,782
Provision for excess and obsolete inventories	1,234	2,013
Allowance for doubtful accounts, returns and discounts	576	(116
Excess tax benefits from stock-based compensation	—	(194
Other non-cash adjustments, net	354	1,108
Changes in operating assets and liabilities:		
Accounts receivable	9,440	(472
Inventories	(7,936	) 2,401
Prepaid expenses and other assets	(13,817	) (5,321
Accounts payable	1,772	(786
Deferred revenue	5,237	7,770
Income taxes payable	(1,372	) (8,292
Accrued and other liabilities	(7,926	) (4,717
Net cash provided by operating activities	8,564	27,521
Cash flows from investing activities:		
Purchases of investments	(20,714	) (26,599
Proceeds from maturities of investments	26,534	43,236
Proceeds from sales of investments	—	7,408
Purchases of property and equipment	(10,393	) (8,859
Purchases of long-term investments	(85	) (5,867
Restricted cash	(1,091	) —
Net cash (used in) provided by investing activities	(5,749	) 9,319
Cash flows from financing activities:		
Payments for repurchase of common stock	(20,007	) (86,407
Proceeds from common stock issued to employees	9,255	4,357
Payment of tax withholding obligations related to net share settlements of restricted stock units	(3,288	) (3,116
Excess tax benefits from stock-based compensation	—	194
Net cash used in financing activities	(14,040	) (84,972
Effect of exchange rate changes on cash and cash equivalents	(236	) (169
Net decrease in cash and cash equivalents	(11,461	) (48,301
Cash and cash equivalents at beginning of period	73,032	90,329
Cash and cash equivalents at end of period	\$61,571	\$42,028
The accompanying notes are an integral part of these condensed consolidated financial statements.		



Table of Contents

HARMONIC INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) which Harmonic Inc. (“Harmonic,” or the “Company”) considers necessary for a fair statement 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 2, 2015 (the “2014 Form 10-K”). 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, 2015, 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 (“U.S. GAAP”).

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP 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.

Significant Accounting Policies

The Company’s significant accounting policies are described in Note 2 to its audited Consolidated Financial Statements included in the 2014 Form 10-K. There have been no significant changes to these policies during the nine months ended October 2, 2015.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new authoritative guidance for revenue recognition, requiring an entity to recognize the amount of revenue that reflects the consideration to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. On August 12, 2015, the FASB issued an accounting standard update for the deferral of the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. The Company has not yet selected a transition method and it is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued new authoritative guidance related to the disclosures around going concern. The new guidance specifies management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The new guidance will be effective for the Company beginning in the fourth quarter of fiscal 2016 and early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting standard but does not expect that it will have a material effect on its consolidated financial statements.

In November 2014, the FASB issued an accounting standard update for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. An entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria. The amendments clarify how current GAAP should be interpreted in



evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2016 and early adoption is

7

---

Table of Contents

permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In February 2015, the FASB issued an accounting standard update that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2016 and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In April 2015, the FASB issued an accounting standard update on whether a cloud computing arrangement includes a software license. The guidance requires the accounting for a cloud computing arrangement that includes a software license element to be consistent with the accounting for acquisition of other software licenses. Cloud computing arrangement without software licenses are to be accounted for as a service contract. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2016 and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In July 2015, the FASB issued an accounting standard update that requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2017 and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

**NOTE 3: SHORT-TERM INVESTMENTS**

The following table summarizes the Company's short-term investments (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of October 2, 2015				
State, municipal and local government agencies bonds	\$2,502	\$1	\$—	\$2,503
Corporate bonds	23,484	15	(12	) 23,487
Total short-term investments	\$25,986	\$16	\$(12	) \$25,990
As of December 31, 2014				
State, municipal and local government agencies bonds	\$13,946	\$16	\$(1	) \$13,961
Corporate bonds	17,899	3	(16	) 17,886
Total short-term investments	\$31,845	\$19	\$(17	) \$31,847

The following table summarizes the maturities of the Company's short-term investments (in thousands):

	October 2, 2015	December 31, 2014
Less than one year	\$20,545	\$30,946
Due in 1 - 2 years	5,445	901
Total short-term investments	\$25,990	\$31,847

These available-for-sale investments are presented as "Current Assets" in the Condensed Consolidated Balance Sheets as they are available for current operations. Realized gains and losses from the sale of investments for each of the three and nine months ended October 2, 2015 and September 26, 2014 were not material.

As of October 2, 2015 and December 31, 2014, \$6.2 million and \$8.6 million, respectively, of investments in equity securities of other privately and publicly held companies were considered as long-term investments and were included in "Other assets" in the Condensed Consolidated Balance Sheet (See Note 4, "Investments in Other Equity Securities" for additional information).

**Impairment of Short-term Investments**

The Company monitors its investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. A decline of fair value below amortized costs of debt securities is considered other-than-temporary if the Company has the intent to sell the security or it is more likely than not that the

8

---

Table of Contents

Company will be required to sell the security before recovery of the entire amortized cost basis. At the present time, the Company does not intend to sell its investments that have unrealized losses in accumulated other comprehensive loss. In addition, the Company does not believe that it is more likely than not that it will be required to sell its investments that have unrealized losses in accumulated other comprehensive loss before the Company recovers the principal amounts invested. The Company believes that the unrealized losses are temporary and do not require an other-than-temporary impairment, based on its evaluation of available evidence as of October 2, 2015.

As of October 2, 2015, there were no individual available-for-sale securities in a material unrealized loss position and the amount of unrealized losses on the total investment balance was insignificant.

**NOTE 4: INVESTMENTS IN OTHER EQUITY SECURITIES**

From time to time, the Company may acquire certain equity investments for the promotion of business objectives and these investments are classified as long-term investments and included in “Other assets” in the Condensed Consolidated Balance Sheet.

On September 2, 2014, the Company acquired a 3.3% interest in Vislink plc (“Vislink”), a U.K. public company listed on the AIM exchange, for \$3.3 million, and also made a \$3.3 million prepayment for future software license purchases. The investment in Vislink is being accounted for as a cost method investment as the Company does not have significant influence over the operational and financial policies of Vislink. Since the Vislink investment is also an available-for-sale security, its value is marked to market for the difference in fair value at period end. The carrying value of Vislink was \$2.6 million as of each of October 2, 2015 and December 31, 2014, and Vislink’s accumulated unrealized loss, net of taxes was \$(0.7) million as of each of October 2, 2015 and December 31, 2014. The accumulated unrealized loss is included in the Condensed Consolidated Balance Sheets as a component of “Accumulated other comprehensive income (loss)”. As of October 2, 2015, there was no outstanding balance in the prepayment to Vislink for future software license purchase. The Company determined that there were no indicators existing at October 2, 2015 that would indicate that the Vislink investment was impaired. As of October 2, 2015, the Company’s maximum exposure to loss from the Vislink investment was limited to its initial investment cost of \$3.3 million.

**Unconsolidated Variable Interest Entities**

**VJU**

On September 26, 2014, the Company acquired a 19.8% interest in VJU iTV Development GmbH (“VJU”), a software company based in Austria, for \$2.5 million. Since VJU’s equity is deemed not sufficient to permit it to finance its activities without additional support from its shareholders, VJU is considered a variable interest entity (“VIE”). The Company determined that it is not the primary beneficiary of VJU because its financial interest in VJU’s equity and its research and development agreement with VJU do not empower the Company to direct VJU’s activities that will most significantly impact VJU’s economic performance. VJU is accounted for as a cost method investment as the Company does not have significant influence over the operational and financial policies of VJU.

The Company attended a VJU board meeting on March 5, 2015 as an observer. At that meeting, the Company was made aware of significant decreases in VJU’s business prospects, VJU’s existing working capital and prospects for additional funding, compared to the prior information the Company had received from VJU. Based on the Company’s assessment, the Company determined that its investment in VJU was impaired on an other-than-temporary basis. Factors considered included the severity of the impairment and recent events specific to VJU. Based on the Company’s assessment of VJU’s expected cash flows, the entire investment is expected to be non-recoverable. As a result, the Company recorded an impairment charge of \$2.5 million in the first quarter of 2015. The Company’s impairment loss in VJU is limited to its initial cost of investment of \$2.5 million as well as the \$0.1 million research and development cost expensed in September 2014.

At VJU's shareholders meeting held on October 15, 2015, additional contributions by existing shareholders were approved. The Company did not provide additional contributions to VJU, and as a result, the Company's equity interest in VJU decreased from to 19.8% to 9.9%.

EDC

On October 22, 2014, the Company acquired an 18.4% interest in Encoding.com, Inc. ("EDC"), a video transcoding service company headquartered in San Francisco, California, for \$3.5 million by purchasing EDC's Series B preferred stock. Since EDC's equity is deemed not sufficient to permit it to finance its activities without additional support from its shareholders, EDC is considered a VIE. The Company determined that it is not the primary beneficiary of EDC because its financial interest in EDC's equity does not empower the Company to direct EDC's activities that will most significantly impact EDC's economic performance. In addition, the Company determined that its investment in EDC's Series B preferred stock does not have the risk

Table of Contents

and reward characteristics that are substantially similar to EDC's common stock. Therefore, Harmonic does not hold an investment in EDC's common stock or in-substance common stock. According to the applicable accounting guidance, the EDC investment is accounted for as a cost-method investment. The Company determined that there were no indicators existing at October 2, 2015 that would indicate that the EDC investment was impaired.

The following table presents the carrying values and maximum exposure of the unconsolidated VIEs as of October 2, 2015 (in thousands):

	Carrying Value	Maximum exposure to loss <sup>(1)</sup>
VJU	\$—	\$—
EDC <sup>(2)</sup>	3,593	3,593
Total	\$3,593	\$3,593

(1) The Company did not provide financial support to any of its unconsolidated VIEs and as of October 2, 2015, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to any of its unconsolidated VIEs.

(2) The Company's maximum exposure to loss with respect to EDC as of October 2, 2015 was limited to a total investment cost of \$3.6 million, including \$0.1 million of transaction costs.

Each reporting period, the Company reviews all of its unconsolidated VIE investments to determine whether there are any reconsideration events that may result in the Company being a primary beneficiary of any unconsolidated VIE which would then require the Company to consolidate the VIE. The Company also reviews all of its cost-method investments in each reporting period to determine whether a significant event of change in circumstances has occurred that may have an adverse effect on the fair value of each investment.

**NOTE 5: DERIVATIVES AND HEDGING ACTIVITIES**

The Company uses forward contracts to manage exposures to foreign currency exchange rates. The Company's primary objective in holding derivative instruments is to reduce the volatility of earnings and cash flows associated with fluctuations in foreign currency exchange rates and the Company does not use derivative instruments for trading purposes. The use of derivative instruments expose the Company to credit risk to the extent that the counterparties may be unable to meet their contractual obligations, as such, the potential risk of loss with any one counterparty is closely monitored by the Company.

**Derivatives Designated as Hedging Instruments (Cash Flow Hedges)**

Beginning in December 2014, the Company entered into forward currency contracts to hedge forecasted operating expenses and service costs related to employee salaries and benefits denominated in Israeli shekels ("ILS") for its subsidiaries in Israel. These ILS forward contracts mature generally within 12 months and are designated as cash flow hedges. For derivatives that are designated as hedges of forecasted foreign currency denominated operating expenses and service costs, the Company assesses effectiveness based on changes in spot currency exchange rates. Changes in spot rates on the derivative are recorded as a component of "Accumulated other comprehensive income (loss)" ("AOCI") in the Condensed Consolidated Balance Sheets until such time as the hedged transaction impacts earnings. The change in fair value of the forward points, which reflects the interest rate differential between the two countries on the derivative, is excluded from the effectiveness assessment. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

**Derivatives Not Designated as Hedging Instruments (Balance Sheet Hedges)**

Balance sheet hedges consist of foreign currency forward contracts, mature generally within three months, are carried at fair value and they are used to minimize the short-term impact of foreign currency exchange rate fluctuation on cash

and certain trade and inter-company receivables and payables. Changes in the fair value of these foreign currency forward contracts are recognized in "Other income (expense), net" in the Condensed Consolidated Statement of Operations and are largely offset by the changes in the fair value of the assets or liabilities being hedged.

The locations and amounts of designated and non-designated derivative instruments' gains and losses reported in the Company's Condensed Consolidated Statements of Operations were as follows (in thousands):

10

---

Table of Contents

	Financial Statement Location	Three months ended		Nine months ended	
		October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Derivatives designated as hedging instruments:					
Losses in AOCI on derivatives (effective portion)	AOCI	\$(550 )	\$—	\$(218 )	\$—
Gains reclassified from AOCI into income (effective portion)	Cost of Revenue	\$18	\$—	\$44	\$—
	Operating Expense	109	—	270	—
	Total	\$127	\$—	\$314	\$—
Loss recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing)	Other income (expense), net	\$(5 )	\$—	\$(57 )	\$—
Derivatives not designated as hedging instruments:					
Gains (losses) recognized in income	Other income (expense), net	\$(165 )	\$(95 )	\$220	\$(201 )

The Company anticipates the AOCI balance of \$(221,000) at October 2, 2015, relating to net unrealized losses from cash flow hedges, will be reclassified to earnings within the next twelve months.

The U.S. dollar equivalents of all outstanding notional amounts of foreign currency forward contracts are summarized as follows (in thousands):

	October 2, 2015	December 31, 2014
Derivatives designated as cash flow hedges:		
Purchase	\$14,280	\$16,903
Derivatives not designated as hedging instruments:		
Purchase	\$8,244	\$1,043
Sell	\$7,827	\$4,925

The locations and fair value amounts of the Company's derivative instruments reported in its Condensed Consolidated Balance Sheets are as follows (in thousands):

	Balance Sheet Location	Asset Derivatives		Balance Sheet Location	Derivative Liabilities	
		October 2, 2015	December 31, 2014		October 2, 2015	December 31, 2014
Derivatives designated as hedging instruments:						
Foreign currency contracts	Prepaid expenses and other current assets	\$60	\$ 329	Accrued Liabilities	\$291	\$ —
		\$60	\$ 329		\$291	\$ —
Derivatives not designated as hedging instruments:						
Foreign currency contracts	Prepaid expenses and other current assets	\$117	\$ 12	Accrued Liabilities	\$35	\$ 7
		\$117	\$ 12		\$35	\$ 7
Total derivatives		\$177	\$ 341		\$326	\$ 7
Offsetting of Derivative Assets and Liabilities						



The Company recognizes all derivative instruments on a gross basis in the Condensed Consolidated Balance Sheets. However, the arrangements with its counterparties allows for net settlement, which are designed to reduce credit risk by permitting net settlement with the same counterparty. As of October 2, 2015, information related to the offsetting arrangements was as follows (in thousands):

11

---

Table of Contents

				Gross Amounts of Derivatives Not Offset in the Condensed Consolidated Balance Sheets		
	Gross Amounts of Derivatives	Gross Amounts of Derivatives Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Derivatives Presented in the Condensed Consolidated Balance Sheets	Financial Instrument	Cash Collateral Pledged	Net Amount
Derivative Assets	\$ 177	—	\$ 177	\$(169 )	—	\$ 8
Derivative Liabilities	\$ 326	—	\$ 326	\$(169 )	—	\$ 157

As of December 31, 2014, there was no potential effect of rights of offset associated with the outstanding foreign currency forward contracts that would result in a net derivative asset or net derivative liability.

**NOTE 6: FAIR VALUE MEASUREMENTS**

The applicable accounting guidance establishes a framework for measuring fair value and requires disclosure about the fair value measurements of assets and liabilities. This guidance requires the Company to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a nonrecurring basis in periods subsequent to initial measurement, in a three-tier fair value hierarchy as described below.

The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 — Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company primarily uses broker quotes for valuation of its short-term investments. The forward exchange contracts are classified as Level 2 because they are valued using quoted market prices and other observable data for similar instruments in an active market.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company uses the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. During the nine months ended October 2, 2015, there were no nonrecurring fair value measurements of assets and liabilities subsequent to initial recognition.

Table of Contents

The following table sets forth the fair value of the Company's financial assets and liabilities measured at fair value based on the three-tier fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
As of October 2, 2015				
Cash equivalents				
Money market funds	\$14,062	\$—	\$—	\$14,062
Short-term investments				
State, municipal and local government agencies bonds	—	2,503	—	2,503
Corporate bonds	—	23,487	—	23,487
Prepays and other current assets				
Time deposit pledged for credit card facility	—	580	—	580
Derivative assets	—	177	—	177
Other assets				
Long-term investment	2,587	—	—	2,587
Total assets measured and recorded at fair value	\$16,649	\$26,747	\$—	\$43,396
Accrued liabilities				
Derivative liabilities	\$—	\$326	\$—	\$326
Total liabilities measured and recorded at fair value	\$—	\$326	\$—	\$326
	Level 1	Level 2	Level 3	Total
As of December 31, 2014				
Cash equivalents				
Money market funds	\$23,121	\$—	\$—	\$23,121
Short-term investments				
State, municipal and local government agencies bonds	—	13,961	—	13,961
Corporate bonds	—	17,886	—	17,886
Prepays and other current assets				
Derivative assets	—	341	—	341
Other assets				
Long-term investment	2,606	—	—	2,606
Total assets measured and recorded at fair value	\$25,727	\$32,188	\$—	\$57,915
Accrued liabilities				
Derivative liabilities	\$—	\$7	\$—	\$7
Total liabilities measured and recorded at fair value	\$—	\$7	\$—	\$7

**NOTE 7: BALANCE SHEET COMPONENTS**

The following tables provide details of selected balance sheet components (in thousands):

	October 2, 2015	December 31, 2014
Accounts receivable, net:		
Accounts receivable	\$67,304	\$81,201
Less: allowances for doubtful accounts, returns and discounts	(3,176)	(7,057)
Total	\$64,128	\$74,144

Table of Contents

Prepaid expenses and other current assets:		
Prepaid inventories to contract manufacturer <sup>(1)</sup>	\$14,200	\$—
Prepaid software license to Vislink <sup>(2)</sup>	—	1,233
Other Prepayments	10,963	9,713
Deferred cost of revenue	2,794	2,524
Income tax receivable	1,914	2,316
Restricted cash <sup>(3)</sup>	1,091	—
Other	747	1,753
Total	\$31,709	\$17,539

(1) During the first quarter of 2015, the Company made a \$14.2 million advance payment for future inventory requirements to a supplier in order to secure more favorable pricing. The Company anticipates that this amount will begin to offset in the fourth quarter of 2015 through the second quarter of 2016 against the accounts payable owed to this supplier.

(2) The prepaid inventories were related to prepayment for software licenses made to Vislink (see Note 4, “Investments in Other Equity Securities” for additional information on Vislink).

(3) The Company has restricted cash of \$0.5 million that serves as collateral for rent guarantees on certain operating leases in Israel. Additionally, the Company holds \$0.6 million of restricted cash as collateral for its corporate card credit facility in Switzerland. These restricted funds are invested in bank deposits and cannot be withdrawn from the Company’s accounts without the prior written consent of the applicable secured party.

## Inventories:

Raw materials	\$2,400	\$1,422
Work-in-process	1,526	1,255
Finished goods	35,947	30,070
Total	\$39,873	\$32,747
Property and equipment, net:		
Furniture and fixtures	\$7,820	\$7,691
Machinery and equipment	120,067	116,031
Leasehold improvements	10,307	8,140
Property and equipment, gross	138,194	131,862
Less: accumulated depreciation and amortization	(111,575)	(104,641)
Total	\$26,619	\$27,221

## NOTE 8: GOODWILL AND IDENTIFIED INTANGIBLE ASSETS

## Goodwill

The following table presents goodwill by reportable segments (in thousands):

	Video	Cable Edge	Total
As of December 31, 2014	\$136,975	\$60,909	\$197,884
Foreign currency translation adjustment	(41)	(18)	(59)
As of October 2, 2015	\$136,934	\$60,891	\$197,825

## Identified Intangible Assets

The following is a summary of identifiable intangible assets (in thousands):

Table of Contents

	Range of Useful Lives	October 2, 2015		December 31, 2014			
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Identifiable intangibles:							
Developed core technology	4-6 years	\$ 136,145	\$ (136,059 )	\$ 86	\$ 136,145	\$ (135,426 )	\$ 719
Customer relationships/contracts	5-6 years	67,098	(62,434 )	4,664	67,098	(58,784 )	8,314
Maintenance agreements and related relationships	6-7 years	7,100	(6,222 )	878	7,100	(5,534 )	1,566
Total identifiable intangibles		\$ 210,343	\$ (204,715 )	\$ 5,628	\$ 210,343	\$ (199,744 )	\$ 10,599

Amortization expense for the identifiable purchased intangible assets for the three and nine months ended October 2, 2015 and September 26, 2014 was allocated as follows (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Included in cost of revenue	\$ 86	\$ 3,851	\$ 633	\$ 13,049
Included in operating expenses	1,446	1,661	4,338	5,329
Total amortization expense	\$ 1,532	\$ 5,512	\$ 4,971	\$ 18,378

The estimated future amortization expense of purchased intangible assets with definite lives is as follows (in thousands):

	Cost of Revenue	Operating Expenses	Total
Year ended December 31, 2015 (remaining three months)	\$ 86	\$ 1,446	\$ 1,532
2016	—	4,096	4,096
Total future amortization expense	\$ 86	\$ 5,542	\$ 5,628

**NOTE 9: RESTRUCTURING AND RELATED CHARGES**

The Company implemented several restructuring plans in the past few years. The goal of these plans was to bring operational expenses to appropriate levels relative to its net revenues, while simultaneously implementing extensive company-wide expense control programs.

The Company accounts for its restructuring plans under the authoritative guidance for exit or disposal activities. The restructuring and asset impairment charges are included in "Product cost of revenue" and "Operating expenses-restructuring and related charges" in the Condensed Consolidated Statements of Operations. The following table summarizes the restructuring and related charges (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Restructuring and related charges in:				
Product cost of revenue	\$ 113	\$ 15	\$ 113	\$ 94
Operating expenses-Restructuring and related charges	397	388	626	821
Total restructuring and related charges	\$ 510	\$ 403	\$ 739	\$ 915
Harmonic 2015 Restructuring				

In the fourth quarter of 2014, the Company approved a new restructuring plan (the “Harmonic 2015 Restructuring Plan”) to reduce 2015 operating costs and the planned restructuring activities involve headcount reduction, exiting certain operating

15

---

Table of Contents

facilities and disposing of excess assets. The Company started the restructuring activities pursuant to this plan in the fourth quarter of 2014 and expects to complete its actions by end of 2015. The Company recorded \$2.2 million of restructuring and asset impairment charges under this plan in the fourth quarter of 2014 consisting of a \$1.1 million fixed asset impairment charge related to software development costs incurred for a discontinued information technology (“IT”) project, \$0.6 million of severance and benefits related to the termination of 19 employees worldwide, \$0.3 million of excess material costs associated with the termination of a research and development project and \$0.1 million of other charges. The Company recorded \$510,000 and \$739,000 of restructuring charges under this plan, in the three and nine months ended October 2, 2015, respectively. Such restructuring charges consisted of severance and benefits related to the termination of 22 employees.

The following table summarizes the activity in the Harmonic 2015 restructuring accrual during the nine months ended October 2, 2015 (in thousands):

	Severance and benefits	Other charges	Total
Balance at December 31, 2014	\$305	\$17	\$322
Restructuring charges	759	—	759
Adjustments to restructuring provisions	(14	) (6	) (20
Cash payments	(543	) (11	) (554
Balance at October 2, 2015	\$507	\$—	\$507

**Harmonic 2013 Restructuring**

The Company implemented a series of restructuring plans in 2013 to reduce costs and improve efficiencies. These restructuring plans extended to actions taken through the third quarter of fiscal 2014. As a result, the Company recorded restructuring charges of \$2.2 million and \$0.9 million in fiscal 2013 and fiscal 2014, respectively. The restructuring charges in the three and nine months ended September 26, 2014 were \$403,000 and \$915,000, respectively, under these plans, consisting of severance and benefits related to the termination of 25 employees worldwide, costs associated with exiting from a research and development project, as well as costs associated with vacating from an excess facility in France. For a complete discussion of the restructuring actions related to the 2013 restructuring plans, see Note 11, “Restructuring and Asset Impairment Charges” of Notes to Consolidated Financial Statements in the 2014 Form 10-K.

**NOTE 10: CREDIT FACILITIES**

On December 22, 2014, the Company entered into a Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A. (“JPMorgan”) for a \$20.0 million revolving credit facility, with a sublimit of \$10.0 million for the issuance of commercial and standby letters of credit on the Company’s behalf. Revolving loans under the Credit Agreement may be borrowed, repaid and re-borrowed until December 22, 2015, at which time all amounts borrowed must be repaid. There were no borrowings under the Credit Agreement during the nine months ended October 2, 2015. As of October 2, 2015, the amount available for borrowing under this facility, net of \$0.5 million of standby letters of credit, was \$19.5 million.

The revolving loan bears interest, at the Company’s election, at either (a) an adjusted LIBOR rate for a term of one, two or three months, plus an applicable margin of 1.75% or (b) the prime rate plus an applicable margin of -1.30%, provided that such rate shall not be less than the one month adjusted LIBOR rate, plus 2.5%. In the event that the balance of the Company’s accounts held with JPMorgan falls below \$30.0 million in aggregate total worldwide consolidated cash and short-term investments (the “Consolidated Cash Threshold”) for five consecutive business days, the Company is obligated to pay a one-time facility fee of \$50,000 to JPMorgan. The Company is also obligated to pay JPMorgan a non-usage fee equal to the average daily unused portion of the credit facility multiplied by a per annum rate of 0.25% if, during any calendar month, the balance in the Company’s accounts held with JPMorgan falls below the Consolidated Cash Threshold for five consecutive business days.

The Company will pay a letter of credit fee with respect to any letters of credit issued under the Credit Agreement in an amount equal to (a) in the case of a standby letter of credit, the maximum amount available to be drawn under such standby letter of credit multiplied by a per annum rate of 1.75% and (b) in the case of a commercial letter of credit, the greater of \$100 or 0.75% of the original maximum available amount of such commercial letter of credit. The Company will also pay other customary transaction fees and costs in connection with the issuance of letters of credit under the Credit Agreement.



Table of Contents

Obligations under the Credit Agreement are secured only by a pledge of 66.67% of the Company's equity interests in its foreign subsidiary, Harmonic International AG. Additionally, to the extent that the Company in the future forms any direct or indirect, domestic, material subsidiaries, those subsidiaries will be required to provide a guaranty of the Company's obligations under the Credit Agreement.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit the Company's and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments or pay dividends, in each case subject to certain exceptions. The Company is also required to maintain, on a consolidated basis, total cash and marketable securities of at least \$35.0 million and EBITDA of at least \$20.0 million determined on a rolling four-quarter basis. As of October 2, 2015, the Company was in compliance with the covenants under the Credit Agreement.

**NOTE 11: EMPLOYEE BENEFIT PLANS**

Harmonic grants stock options and restricted stock units ("RSUs") pursuant to stockholder approved equity incentive plans. These equity incentive plans are described in detail in Note 14, "Employee Benefit Plans" of Notes to Consolidated Financial Statements in the 2014 Form 10-K.

**Stock Options and Restricted Stock Units**

The following table summarizes the Company's stock option and RSU unit activity during the nine months ended October 2, 2015 (in thousands, except per share amounts):

	Shares Available for Grant	Stock Options Outstanding Number of Shares	Weighted Average Exercise Price	Restricted Stock Units Outstanding Number of Units	Weighted Average Grant Date Fair Value
Balance at December 31, 2014	7,480	7,255	\$6.65	2,241	\$ 6.40
Authorized	—	—	—	—	—
Granted	(4,000	) 1,156	7.58	1,895	7.17
Options exercised	—	(748	) 5.32	—	—
Shares released	—	—	—	(1,526	) 6.47
Forfeited or cancelled	1,887	(1,606	) 8.05	(189	) 6.79
Balance at October 2, 2015	5,367	6,057	\$6.62	2,421	\$ 6.99

The following table summarizes information about stock options outstanding as of October 2, 2015 (in thousands, except per share amounts):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Vested and expected to vest	5,777	\$6.60	4.1	\$994
Exercisable	3,634	6.44	3.2	968

The intrinsic value of options vested and expected to vest and exercisable as of October 2, 2015 is calculated based on the difference between the exercise price and the fair value of the Company's common stock as of October 2, 2015. The intrinsic value of options exercised is calculated based on the difference between the exercise price and the fair value of the Company's common stock as of the exercise date. The intrinsic value of options exercised during the three and nine months ended October 2, 2015 was \$28,000 and \$1.7 million, respectively. The intrinsic value of options exercised during the three and nine months ended September 26, 2014 was \$0.3 million and \$0.7 million, respectively. The following table summarizes information about RSUs outstanding as of October 2, 2015 (in thousands, except per share amounts):



Table of Contents

	Number of Shares Underlying Restricted Stock Units	Weighted Average Remaining Vesting Period (Years)	Aggregate Fair Value
Vested and expected to vest	1,859	0.8	\$10,856

The fair value of RSUs vested and expected to vest as of October 2, 2015 is calculated based on the fair value of the Company's common stock as of October 2, 2015.

**Employee Stock Purchase Plan**

The 2002 Employee Stock Purchase Plan ("ESPP") provides for the issuance of common stock purchase rights to employees of the Company. The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. The ESPP enables employees to purchase shares at 85% of the fair market value of the common stock at the beginning or end of the offering period, whichever is lower. Offering periods generally begin on the first trading day on or after January 1 and July 1 of each year. Employees may participate through payroll deductions of 1% to 10% of their earnings. In the event that there are insufficient shares in the plan to fully fund the issuance, the available shares will be allocated across all participants based on their contributions relative to the total contributions received for the offering period.

**401(k) Plan**

The Company has a retirement/savings plan which qualifies as a thrift plan under Section 401(k) of the Internal Revenue Code. This plan allows participants to contribute up to the applicable Internal Revenue Code limitations under the plan. The Company has made discretionary contributions to the plan of 25% of the first 4% contributed by eligible participants, up to a maximum contribution per participant of \$1,000 per year. The contributions for the nine months ended October 2, 2015 and September 26, 2014 were \$342,000 and \$354,000, respectively.

**NOTE 12: STOCK-BASED COMPENSATION**

Stock-based compensation expense consists primarily of expenses for stock options and RSUs granted to employees and shares issued under the ESPP. The following table summarizes stock-based compensation expense (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Stock-based compensation in:				
Cost of revenue	\$433	\$612	\$1,383	\$1,751
Research and development expense	1,074	1,219	3,249	3,589
Selling, general and administrative expense	2,320	2,521	7,213	7,380
Total stock-based compensation in operating expense	3,394	3,740	10,462	10,969
Total stock-based compensation	\$3,827	\$4,352	\$11,845	\$12,720

The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

**Stock Options**

The Company estimated the fair value of all employee stock options using a Black-Scholes valuation model with the following weighted average assumptions:

Table of Contents

	Three months ended		Nine months ended		
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014	
Expected term (years)	4.60	4.70	4.70	4.70	
Volatility	37	% 40	% 38	% 40	%
Risk-free interest rate	1.5	% 1.8	% 1.6	% 1.7	%
Expected dividends	0.0	% 0.0	% 0.0	% 0.0	%

The expected term represents the weighted-average period that the stock options are expected to remain outstanding. The computation of the expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The Company uses its historical volatility for a period equivalent to the expected term of the options to estimate the expected volatility. The risk-free interest rate that the Company uses in the Black-Scholes option valuation model is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term. The Company has never declared or paid any cash dividends and does not plan to pay cash dividends in the foreseeable future, and, therefore, used an expected dividend yield of zero in the valuation model.

The weighted-average fair value per share of options granted was \$2.01 and \$2.48 for the three months ended October 2, 2015 and September 26, 2014, respectively. The weighted-average fair value per share of options granted was \$2.63 and \$2.36 for the nine months ended October 2, 2015 and September 26, 2014, respectively.

The fair value of all stock options vested during each of the three months ended October 2, 2015 and September 26, 2014 was \$0.6 million. The fair value of all stock options vested during the nine months ended October 2, 2015 and September 26, 2014 was \$2.5 million and \$2.6 million, respectively.

There were no realized tax benefits attributable to stock options exercised in jurisdictions where this expense is deductible for tax purposes for the nine months ended October 2, 2015. The total realized tax benefit attributable to stock options exercised during the nine months ended September 26, 2014 was \$194,000.

**Restricted Stock Units**

The aggregate fair value of all RSUs issued during the three months ended October 2, 2015 and September 26, 2014 were \$2.2 million and \$2.7 million, respectively. The aggregate fair value of all RSUs issued during the nine months ended October 2, 2015 and September 26, 2014 were \$9.9 million and \$10.0 million, respectively.

**Employee Stock Purchase Plan**

The value of the stock purchase rights under the ESPP consists of: (1) the 15% discount on the purchase of the stock; (2) 85% of the fair value of the call option; and (3) 15% of the fair value of the put option. The call option and put option were valued using the Black-Scholes option pricing model. The weighted average fair value of the Company's ESPP shares at purchase dates was estimated using the following weighted average assumptions during the nine months ended October 2, 2015 and September 26, 2014:

	Purchase Period Ending				
	December 31, 2015	June 30, 2015	December 31, 2014	June 30, 2014	
Expected term (years)	0.50	0.50	0.50	0.50	
Volatility	32	% 35	% 33	% 28	%
Risk-free interest rate	0.1	% 0.1	% 0.1	% 0.1	%
Expected dividends	0.0	% 0.0	% 0.0	% 0.0	%
Estimated weighted average fair value per share at purchase date	\$1.64	\$1.75	\$1.84	\$1.70	

The expected term represents the period of time from the beginning of the offering period to the purchase date. The Company uses its historical volatility for a period equivalent to the expected term of the options to estimate the expected volatility. The risk-free interest rate that the Company uses in the Black-Scholes option valuation model is

based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term. The Company has never declared or paid any cash dividends

Table of Contents

and does not plan to pay cash dividends in the foreseeable future, and, therefore, used an expected dividend yield of zero in the valuation model.

## Unrecognized Stock-Based Compensation

As of October 2, 2015, the Company had approximately \$14.7 million of unrecognized stock-based compensation expense related to the unvested portion of its stock options and RSUs that is expected to be recognized over a weighted-average period of approximately 1.9 years.

## NOTE 13: INCOME TAXES

The Company reported the following operating results for the periods presented (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Loss before income taxes	\$ (6,079 )	\$ (3,752 )	\$ (9,289 )	\$ (19,594 )
(Benefit from) provision for income taxes	(1,268 )	(4,830 )	(827 )	21,800
Effective income tax rate	20.9 %	128.7 %	8.9 %	(111.3 )%

The Company operates in multiple jurisdictions and its profits are taxed pursuant to the tax laws of these jurisdictions. The Company's effective income tax rate may be affected by changes in, or interpretations of tax laws and tax agreements in any given jurisdiction, utilization of net operating loss and tax credit carry forwards, changes in geographical mix of income and expense, and changes in management's assessment of matters such as the ability to realize deferred tax assets, as well as recognition of uncertain tax benefits, the effects of the statute of limitations, or settlement with tax authorities.

The Company's effective income tax rate of 8.9% for the nine months ended October 2, 2015 was lower than the U.S. federal statutory rate of 35% primarily due to a difference in foreign tax rates and the Company's U.S. losses generated in the nine months ended October 2, 2015 receiving no tax benefit as a result of a full valuation allowance against all of its U.S. deferred tax assets as well as adjustments relating to its 2014 U.S. federal tax return filed in September 2015 and the reversal of uncertain tax positions resulting from the expiration of the statute of limitations. The impairment of the VJU investment (see Note 4, "Investments in Other Equity Securities") received no tax benefit. The Company's effective income tax rate of (111.3)% for the nine months ended September 26, 2014 differed from the U.S. federal statutory rate of 35%, primarily due to a \$28.7 million increase in the valuation allowance against U.S. federal, California, and other state deferred tax assets. The increased valuation allowance was a result of a history of operating losses in recent years that has led to uncertainty with respect to the Company's ability to realize certain of its net deferred tax assets, of which \$4.2 million and \$24.5 million were recorded in the third and second quarter of 2014, respectively. This unfavorable impact was offset in part by net tax benefits of \$8.5 million associated with the release of tax reserves for uncertain tax positions as a result of the expiration of statute of limitations, which were released in the third quarter of 2014.

The Company files U.S. federal and state, and foreign income tax returns in jurisdictions with varying statutes of limitations during which such tax returns may be audited and adjusted by the relevant tax authorities. The 2011 through 2014 tax years generally remain subject to examination by most state tax authorities in the United States. The Company's income tax return for 2012 is currently under examination by the U.S. Internal Revenue Service, which commenced in August 2015, and the 2013 through 2014 tax years remain subject to examination by the U.S. federal tax authority. In August 2015, the Company was notified by the County of Santa Clara, California, of a new property tax audit for the 2012 through 2015 tax years. The Company is in the process of appealing a \$1.6 million assessment for underpayment of property tax and associated interest relating to a previous audit cycle which commenced in 2013, for the 2007 through 2011 tax years. In connection with the previous audit cycle, the Company has made several advance payments to the Santa Clara County aggregating \$1.8 million, of which \$0.6 million was recorded in operating expenses in prior years and the remainder \$1.2 million was included in "Prepaid and other current assets" on our Condensed Consolidated Balance Sheet as of October 2, 2015, as we expect a tax refund for this amount. The Company expects to settle the appeal in early 2016. In significant foreign jurisdictions, the 2006 through 2014 tax years generally remain subject to examination by their respective tax authorities. A subsidiary of the Company is

under audit for the 2012 and 2013 tax years, which commenced in the first quarter of 2015, by the Israel tax authority. If, upon the conclusion of these audits, the ultimate determination of taxes owed in the United States or Israel is for an amount in excess of the tax provision the Company has recorded in the applicable period, the Company's overall tax expense, effective tax rate, operating results and cash flow could be materially and adversely impacted in the period of adjustment.

Table of Contents

The Company's operations in Switzerland are subject to a reduced tax rate under the Switzerland tax holiday which requires various thresholds of investment and employment in Switzerland. The Company has met these various thresholds and the Switzerland tax holiday is effective through the end of 2018.

As of October 2, 2015, the total amount of gross unrecognized tax benefits, including interest and penalties, was approximately \$15.9 million, of which \$4.3 million would affect the Company's effective tax rate if the benefits are eventually recognized. The remaining gross unrecognized tax benefit does not affect the Company's effective tax rate as it relates to positions that would be settled with tax attributes such as net operating loss carryforward or tax credits previously subject to a valuation allowance. The Company recognizes interest and penalties related to unrecognized tax positions in income tax expense. The Company had \$0.6 million of gross interest and penalties accrued as of October 2, 2015. The Company will continue to review its tax positions and provide for, or reverse, unrecognized tax benefits as issues arise. As of October 2, 2015, the Company anticipates that the balance of gross unrecognized tax benefits will decrease up to approximately \$1.4 million due to expiration of the applicable statutes of limitations over the next 12 months.

**NOTE 14: INCOME (LOSS) PER SHARE**

The following table sets forth the computation of the basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Numerator:				
Net income (loss)	\$ (4,811 )	\$ 1,078	\$ (8,462 )	\$ (41,394 )
Denominator:				
Weighted average shares used to compute net income(loss) per share-basic	87,991	90,618	88,359	94,113
Effect of dilutive securities from stock options, restricted stock units and ESPP	—	1,182	—	—
Weighted average shares used to compute net income(loss) per share-diluted	87,991	91,800	88,359	94,113
Net income (loss) per share:				
Basic	\$ (0.05 )	\$ 0.01	\$ (0.10 )	\$ (0.44 )
Diluted	\$ (0.05 )	\$ 0.01	\$ (0.10 )	\$ (0.44 )

The following table sets forth the potentially dilutive shares from stock options, RSUs and the ESPP, for the periods presented, which were excluded from the net income (loss) per share computations because their effect was anti-dilutive (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Potentially dilutive equity awards outstanding	8,817	5,196	9,403	9,321

**NOTE 15: SEGMENT INFORMATION**

Operating segments are defined as components of an enterprise that engage in business activities for which separate financial information is available and evaluated by the Company's Chief Operating Decision Maker ("CODM"), which for Harmonic is its Chief Executive Officer, in deciding how to allocate resources and assess performance. Prior to the fourth quarter of 2014, the Company operated its business in one reportable segment. In connection with the 2015 annual planning process, the Company changed its operating segments to align with how the CODM expected to evaluate the financial information used to allocate resources and assess performance of the Company. The new reporting structure consists of two operating segments: Video and Cable Edge. As a result, the segment information presented has been conformed to the new operating segments for all prior periods.



The new operating segments were determined based on the nature of the products offered. The Video segment sells video processing and production and playout solutions and services worldwide to broadcast and media companies, streaming new

21

---

Table of Contents

media companies, cable operators, and satellite and telecommunications (telco) Pay-TV service providers. The Cable Edge segment sells cable edge solutions and related services to cable operators globally.

The Company does not allocate amortization of intangibles, stock-based compensation, restructuring and asset impairment charges, and certain other non-recurring charges to the operating income for each segment because management does not include this information in the measurement of the performance of the operating segments. A measure of assets by segment is not applicable as segment assets are not included in the discrete financial information provided to the CODM.

The following tables provide summary financial information by reportable segment (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Net revenue:				
Video	\$71,889	\$81,360	\$219,378	\$239,823
Cable Edge	11,416	26,701	71,046	85,859
Total consolidated net revenue	\$83,305	\$108,061	\$290,424	\$325,682
Operating income (loss):				
Video	\$3,575	\$6,609	\$8,386	\$9,426
Cable Edge	(3,963)	) 120	2,582	3,178
Total segment operating income (loss)	(388)	) 6,729	10,968	12,604
Unallocated corporate expenses*	(510)	) (403)	) (739)	) (915)
Stock-based compensation	(3,827)	) (4,352)	) (11,845)	) (12,720)
Amortization of intangibles	(1,532)	) (5,512)	) (4,971)	) (18,378)
Loss from operations	(6,257)	) (3,538)	) (6,587)	) (19,409)
Non-operating income (expense)	178	(214)	) (2,702)	) (185)
Loss before income taxes	\$(6,079)	) \$(3,752)	) \$(9,289)	) \$(19,594)

\*Unallocated corporate expenses include certain corporate-level operating expenses and charges such as restructuring and related charges.

## NOTE 16: COMMITMENTS AND CONTINGENCIES

## Leases

Future minimum lease payments under non-cancelable operating leases as of October 2, 2015 are as follows (in thousands):

Years ending December 31,	
2015 (remaining three months)	\$1,809
2016	9,346
2017	8,739
2018	8,435
2019	8,245
Thereafter	6,402
Total	\$42,976

Table of Contents

## Warranties

The Company accrues for estimated warranty costs at the time of product shipment. Management periodically reviews the estimated fair value of its warranty liability and records adjustments based on the terms of warranties provided to customers, historical and anticipated warranty claims experience, and estimates of the timing and cost of warranty claims. Activity for the Company's warranty accrual, which is included in accrued liabilities, is summarized below (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Balance at beginning of period	\$4,167	\$3,532	\$4,242	\$3,606
Accrual for current period warranties	1,182	2,028	4,215	5,383
Warranty costs incurred	(1,448	) (1,629	) (4,556	) (5,058
Balance at end of period	\$3,901	\$3,931	\$3,901	\$3,931

## Purchase Commitments with Contract Manufacturers and Other Suppliers

The Company relies on a limited number of contract manufacturers and suppliers to provide manufacturing services for a substantial majority of its products. In addition, some components, sub-assemblies and modules are obtained from a sole supplier or limited group of suppliers. During the normal course of business, in order to reduce manufacturing lead times and ensure adequate component supply, the Company enters into agreements with certain contract manufacturers and suppliers that allow them to procure inventory and services based upon criteria defined by the Company. The Company had approximately \$21.2 million of non-cancelable purchase commitments with contract manufacturers and other suppliers as of October 2, 2015.

## Standby Letters of Credit

As of October 2, 2015, the Company's financial guarantees consisted of standby letters of credit outstanding, which were primarily related to performance bonds and state requirements imposed on employers. The maximum amount of potential future payments under these arrangements was \$0.5 million as of October 2, 2015.

## Indemnification

Harmonic is obligated to indemnify its officers and the members of its Board of Directors (the "Board") pursuant to its bylaws and contractual indemnity agreements. Harmonic also indemnifies some of its suppliers and most of its customers for specified intellectual property matters pursuant to certain contractual arrangements, subject to certain limitations. The scope of these indemnities varies, but, in some instances, includes indemnification for damages and expenses (including reasonable attorneys' fees). There have been no amounts accrued in respect of these indemnification provisions through October 2, 2015.

## Guarantees

The Company has \$0.4 million of guarantees in Israel as of October 2, 2015, with the majority relating to rent obligations for buildings used by its Israeli subsidiaries.

## Legal proceedings

From time to time, the Company is involved in lawsuits as well as subject to various legal proceedings, claims, threats of litigation, and investigations in the ordinary course of business, including claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment, and other matters. The Company assesses potential liabilities in connection with each lawsuit and threatened lawsuits and accrues an estimated loss for these loss contingencies if both of the following conditions are met: information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. While certain matters to which the Company is a party specify the damages claimed, such claims may not represent reasonably possible losses. Given the inherent uncertainties of litigation, the ultimate outcome of these matters cannot be predicted at this time, nor can the amount of possible loss or range of loss, if any, be reasonably estimated.

In October 2011, Avid Technology, Inc. ("Avid") filed a complaint in the U. S. District Court for the District of Delaware alleging that the Company's Media Grid product infringes two patents held by Avid. A jury trial on this

complaint commenced on January 23, 2014 and, on February 4, 2014, the jury returned a unanimous verdict in favor of the Company, rejecting Avid's infringement allegations in their entirety. On May 23, 2014, Avid filed a post-trial motion asking the court to set aside the jury's verdict, and the judge issued an order on December 17, 2014, denying the motion. On January 5, 2015, Avid filed an appeal with respect to the jury's verdict with the Federal Circuit, which was docketed on January 9, 2015, as Case No.

Table of Contents

2015-1246. Avid filed its opening brief with respect to this appeal on March 24, 2015, the Company filed its response brief on May 7, 2015, and Avid filed its reply brief on June 16, 2015. An order has not yet been issued regarding the scheduling of oral arguments.

In June 2012, Avid served a subsequent complaint in the U.S. District Court for the District of Delaware alleging that the Company's Spectrum product infringes one patent held by Avid. The complaint seeks injunctive relief and unspecified damages. In September 2013, the U.S. Patent Trial and Appeal Board ("PTAB") authorized an inter partes review to be instituted as to claims 1-16 of the patent asserted in this second complaint. A hearing before the PTAB was conducted on May 20, 2014. On July 10, 2014, the PTAB issued a decision finding claims 1 - 10 invalid and claims 11 - 16 not invalid. The Company filed an appeal with respect to the PTAB's decision on claims 11 - 16 on September 11, 2014. The appeal was docketed with the Federal Circuit on October 22, 2014, as Case No. 2015-1072, and the Company filed its opening brief with respect to this appeal on January 29, 2015. Avid and PTAB each filed a response brief on April 27, 2015, and the Company filed a reply brief on May 28, 2015. Oral arguments were held on October 8, 2015. The Federal Circuit has not yet issued an order in this matter.

The Company is unable to predict the outcome of these lawsuits and therefore is unable to estimate an amount or range of any reasonably possible losses resulting from them. An unfavorable outcome on any litigation matter could require that the Company pay substantial damages, or, in connection with any intellectual property infringement claims, could require that the Company pay ongoing royalty payments or could prevent the Company from selling certain of its products. As a result, a settlement of, or an unfavorable outcome on, any of the matters referenced above or other litigation matters could have a material adverse effect on the Company's business, operating results, financial condition and cash flows.

## NOTE 17: STOCKHOLDERS' EQUITY

## Accumulated Other Comprehensive Income (Loss) ("AOCI")

The components of AOCI, on an after-tax basis where applicable, were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Available-for-Sale Investments	Total
Balance as of December 31, 2014	\$(1,523	) \$311	\$ (768	) \$(1,980
Other comprehensive income (loss) before reclassifications	(766	) (218	) 17	(967
Amounts reclassified from AOCI	—	(314	) —	(314
Provision for income taxes	—	—	(6	) (6
Balance as of October 2, 2015	\$(2,289	) \$(221	) \$ (757	) \$(3,267

The effects of amounts reclassified from AOCI into the condensed consolidated statement of operations were as follows (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Gains on cash flow hedges from foreign currency contracts:				
Cost of revenue	\$18	\$—	\$44	\$—
Operating expenses	109	—	270	—
Total reclassifications from AOCI	\$127	\$—	\$314	\$—

## Common Stock Repurchases

On April 24, 2012, the Board approved a stock repurchase program that provided for the repurchase of up to \$25 million of our outstanding common stock. During 2013, the Board approved \$195 million of increases to the program,

increasing the aggregate authorized amount of the program to \$220 million. On February 6, 2013, the Board approved a modification to the program that permits the Company to also repurchase its common stock pursuant to a plan that meets the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. On May 14, 2014, the Board approved an additional \$80

Table of Contents

million increase to the program, resulting in an aggregate authorized purchase of \$300 million under the program and the repurchase period was extended through the end of 2016.

As of October 2, 2015, the Company had purchased 40.2 million shares of common stock under this program at a weighted average price of \$6.25 per share for an aggregate purchase price of \$252.3 million, including \$1.0 million of expenses. The remaining authorized amount for stock repurchases under this program was \$48.6 million as of October 2, 2015. For additional information, see “Item 2 - Unregistered sales of equity securities and use of proceeds” of this Quarterly Report on Form 10-Q.

NOTE 18: SUBSEQUENT EVENT

Management and Organizational Changes

On November 2, 2015, Carolyn V. Aver resigned from her position as the Chief Financial Officer of the Company. Ms. Aver will remain available to the Company in an advisory capacity until December 31, 2015 to assist with the transition of her responsibilities and other related matters. In connection with Ms. Aver’s resignation, Mr. Covert, who stepped down from the Company’s board, was appointed as the Company’s Chief Financial Officer and principal financial and accounting officer. On October 30, 2015, George Stromeyer, resigned from his position as Senior Vice President, Worldwide Sales of the Company.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The terms "Harmonic," the "Company," "we," "us," "its," and "our," as used in this Quarterly Report on Form 10-Q (this "Form 10-Q"), refer to Harmonic, Inc. and its subsidiaries and its predecessors as a combined entity, except where the context requires otherwise.

Some of the statements contained in this Form 10-Q are forward-looking statements that involve risk and uncertainties. The statements contained in this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding the future. In some cases, you can identify forward-looking statements by terminology such as, "may," "will," "should," "expects," "plans," "anticipates," "believes," "intends," "estimates," "predicts," "continue" or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements regarding:

- developing trends and demands in the markets we address, particularly emerging markets;
- economic conditions, particularly in certain geographies, and in financial markets;
- new and future products and services;
- capital spending of our customers;
- our strategic direction, future business plans and growth strategy;
- industry and customer consolidation;
- expected demand for and benefits of our products and services;
- seasonality of revenue and concentration of revenue sources;
- the potential impact of our continuing stock repurchase plan;
- potential future acquisitions and dispositions;
- anticipated results of potential or actual litigation;
- our competitive environment;
- the impact of governmental regulation;
- anticipated revenue and expenses, including the sources of such revenue and expenses;
- expected impacts of changes in accounting rules;
- use of cash, cash needs and ability to raise capital; and
- the condition of our cash investments.

These statements are subject to known and unknown risks, uncertainties and other factors, any of which may cause our actual results to differ materially from those implied by the forward-looking statements. Important factors that may cause actual results to differ from expectations include those discussed in "Risk Factors" beginning on page 39 of this Form 10-Q. All forward-looking statements included in this Form 10-Q are based on information available to us on the date thereof, and we assume no obligation to update any such forward-looking statements.

OVERVIEW

We design, manufacture and sell versatile and high performance video infrastructure products and system solutions that enable our customers to efficiently create, prepare and deliver a full range of video and broadband services to consumer devices, including televisions, personal computers, laptops, tablets and smart phones. We operate in two segments, Video and Cable Edge. Our Video business sells video processing and production and playout solutions and services worldwide to cable operators and satellite and telecommunications (telco) Pay-TV service providers, which we refer to collectively as "service providers," as well as to broadcast and media companies, including streaming new media companies. Our Cable Edge business sells cable edge solutions and related services, primarily to cable operators globally.



Table of Contents

Historically, our revenue has been dependent upon capital spending in the cable, satellite, telco, broadcast and media industries, including streaming media. Our customers' capital spending patterns are dependent on a variety of factors, including but not limited to: economic conditions in the U.S. and international markets; access to financing; annual budget cycles of each of the industries we serve; impact of industry consolidations; and customers suspending or reducing capital spending in anticipation of new products or new standards, new industry trends and/or technology shifts. If our product portfolio and product development plans do not position us well to capture an increased portion of the capital spending in the markets on which we compete, our revenue may decline. As we attempt to further diversify our customer base in these markets, we may need to continue to build alliances with other equipment manufacturers, content providers, resellers and system integrators, managed services providers and software developers; adapt our products for new applications; take orders at prices resulting in lower margins; and build internal expertise to handle the particular operational, payment, financing and/or contractual demands of our customers, which could result in higher operating costs for us. Implementation issues with our products or those of other vendors have caused in the past, and may cause in the future, delays in project completion for our customers and delay our recognition of revenue.

A majority of our revenue has been derived from relatively few customers, due in part to the consolidation of our service provider customers. Sales to our ten largest customers in the three and nine months ended October 2, 2015 accounted for approximately 28% and 34%, respectively, of our net revenue, compared to 36% and 37%, respectively, for the same periods in 2014. Although we are attempting to broaden our customer base by penetrating new markets and further expanding internationally, we expect to see continuing industry consolidation and customer concentration. No customers accounted for more than 10% of net revenue in the three months October 2, 2015 and Comcast accounted for 15% of our net revenue for the same period in 2014. In the first nine months of 2015 and 2014, revenue from Comcast accounted for approximately 13% and 18% of our net revenue, respectively. The loss of Comcast or any other significant customer, any material reduction in orders by Comcast or any significant customer, or our failure to qualify our new products with a significant customer could materially and adversely affect our operating results, financial condition and cash flows.

Our net revenue decreased \$24.8 million, or 23%, in the three months ended October 2, 2015, compared to the corresponding period in 2014, primarily due to a \$15.3 million decrease in our Cable Edge segment revenue and a \$9.5 million decrease in our Video segment revenue. Our net revenue decreased \$35.3 million, or 11%, in the nine months ended October 2, 2015, compared to the corresponding period in 2014, primarily due to a \$20.5 million decrease in our Video segment revenue and a \$14.8 million decrease in our Cable Edge segment revenue.

The decreases in our Cable Edge segment revenue in the three and nine months ended October 2, 2015 were primarily due to the negative impact and project delays resulting from industry consolidations in the North America and in the Europe, Middle East and Africa ("EMEA") regions as well as reduced capital spending by some of our customers in anticipation of the next generation Converged Cable Access Platform ("CCAP") technologies, and to a lesser extent the unfavorable impact from the strengthening of the U.S. dollar.

The decreases in our Video segment revenue in the three and nine months ended October 2, 2015, were primarily due to softer demand trends worldwide stemming from customers' technology and business model transitions, unfavorable currency impact and industry consolidations resulting in an unanticipated deferral of several large projects in the North America and EMEA regions in the third quarter of 2015. The decreases in our Video segment in the three and nine months ended October 2, 2015 were offset in part by higher service revenue, primarily in the Americas region.

The delay by our customers in purchasing new solutions in anticipation of the adoption of next generation technologies and architectures, including the continued delays by new and existing broadcast and media company and service provider customers, first began in 2014. We believe we are still in the early stages of adoption and delays could continue in varying degrees for the next several quarters. Meanwhile, our customers' consolidation activities are ongoing and may further contribute to investment uncertainties in the coming months.

As a result of the decrease in our net revenue and the continued uncertainty regarding the timing of our customers' investment decisions, we implemented restructuring plans to bring our operating expenses more in line with net revenues, while simultaneously implementing extensive, Company-wide expense control programs (See Note 9,

“Restructuring and Related Charges” of the Notes to our Condensed Consolidated Financial Statements for additional information).

Our quarterly revenue has been, and may continue to be, affected by seasonal buying patterns. Typically, revenue in the first quarter of the year is seasonally lower than other quarters, as our customers often are still finalizing their annual budget and capital spending projections for the year. Further, we often recognize a substantial portion of our quarterly revenues in the last month of each quarter. We establish our expenditure levels for product development and other operating expenses based on projected revenue levels for a specified period, and expenses are relatively fixed in the short term. Accordingly, even small variations in timing of revenue, particularly from large individual transactions, can cause significant fluctuations in operating results in a particular quarter.

Table of Contents

As part of our business strategy, (1) from time to time we have acquired or invested in, and continue to consider acquiring or investing in, businesses, technologies, assets and product lines that we believe complement or may enhance or expand our existing business, and (2) from time to time we consider divesting a product line that we believe may no longer complement or expand our existing business. In March 2013, we completed the sale of our cable access HFC business to Aurora Networks, Inc. for \$46 million, and in 2014, we made strategic minority investments in three companies (See Note 4, "Investments in Other Equity Securities," of the notes to our Condensed Consolidated Financial Statements for additional information).

**CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

There have been no material changes to our critical accounting policies, judgments and estimates, during the nine months ended October 2, 2015, from those disclosed in our 2014 Annual Report on Form 10-K (the "2014 Form 10-K").

**ACCOUNTING PRONOUNCEMENTS**

For a summary of recent accounting pronouncements applicable to our consolidated condensed financial statements see

Note 2 to the Condensed Consolidated Financial Statements in Item 1, which is incorporated herein by reference.

**RESULTS OF OPERATIONS****Net Revenue**

Prior to the fourth quarter of 2014, we operated our business in one reportable segment. In connection with our 2015 annual planning process, we changed our operating segments to align with how our chief operating decision maker, which for us is our Chief Executive Officer, expected to evaluate the financial information used to allocate resources and assess our performance. The new reporting structure consists of two operating segments: Video and Cable Edge. As a result, the segment information presented has been conformed to the new operating segments for all prior periods.

The new operating segments were determined based on the nature of the products offered. The Video segment sells video processing and production and playout solutions and services worldwide to service providers as well as to broadcast and media companies, including streaming new media companies. The Cable Edge segment sells cable edge solutions and related services to cable operators globally.

The following table presents the breakdown of revenue by segment for the three and nine months ended October 2, 2015 and September 26, 2014 (in thousands, except percentages):

	Three months ended			Nine months ended		
	October 2, 2015	September 26, 2014	Q3 FY15 vs Q3 FY14	October 2, 2015	September 26, 2014	Q3 FY15 YTD vs Q3 FY14 YTD
Segment:						
Video	\$71,889	\$81,360	\$(9,471 )(12 )%	\$219,378	\$239,823	\$(20,445 )(9 )%
Cable Edge	11,416	26,701	(15,285 )(57 )%	71,046	85,859	(14,813 )(17 )%
Total	\$83,305	\$108,061	\$(24,756 )(23 )%	\$290,424	\$325,682	\$(35,258 )(11 )%
Segment revenue as a % of total net revenue:						
Video	86	% 75	%	76	% 74	%
Cable Edge	14	% 25	%	24	% 26	%

The following table presents the breakdown of revenue by geographical region for the three and nine months ended October 2, 2015 and September 26, 2014 (in thousands, except percentages):

Table of Contents

	Three months ended			Nine months ended		
	October 2, 2015	September 26, 2014	Q3 FY15 vs Q3 FY14	October 2, 2015	September 26, 2014	Q3 FY15 YTD vs Q3 FY14 YTD
<b>Geography:</b>						
Americas	\$44,926	\$60,007	\$(15,081)(25)%	\$165,786	\$184,959	\$(19,173)(10)%
EMEA	19,269	27,430	(8,161)(30)%	71,302	83,136	(11,834)(14)%
APAC	19,110	20,624	(1,514)(7)%	53,336	57,587	(4,251)(7)%
Total	\$83,305	\$108,061	\$(24,756)(23)%	\$290,424	\$325,682	\$(35,258)(11)%
<b>Regional revenue as a % of total net revenue:</b>						
Americas	54	% 56	%	57	% 57	%
EMEA	23	% 25	%	25	% 25	%
APAC	23	% 19	%	18	% 18	%

Our Video segment net revenue decreased 12% in the three months ended October 2, 2015, compared to the corresponding period in 2014, primarily due to a \$12.1 million decrease in video product revenue, offset in part by a \$2.6 million increase in video service revenue. Our Video segment net revenue decreased 9% in the nine months ended October 2, 2015, compared to the corresponding period in 2014, primarily due to a \$28.5 million decrease in video product revenue, offset in part by an \$8.1 million increase in video service revenue. The decreases in video product revenue in the three and nine month periods were primarily due to the investment pause of several of our customers as they looked ahead towards the industry's transition to Ultra HD and high-efficiency video coding ("HEVC") compression and new virtualized architectures for video processing, as well as the strengthening of the U.S. dollar as over half of our video product revenue was derived from international customers. The consolidations of some of our customers, primarily in the North America and EMEA regions, in the third quarter of 2015, also contributed to the spending pause we experienced in this period. The increases in our service revenue in the three and nine month periods were primarily due to an increase in the installed base of equipment being serviced for our customers, primarily in the Americas, in both the service provider and the broadcast and media markets.

Our Cable Edge segment net revenue decreased 57% and 17% in the three months and nine months ended October 2, 2015, compared to the corresponding periods in 2014, primarily in the North America region, and, to a lesser extent, in the EMEA region. The decrease was primarily due to lower spending associated with the consolidations of certain cable operators, both in the United States and Europe, which led to a delay in several of our anticipated large projects as well as some decrease in demand as some of our customers looked ahead to our new next generation CCAP technologies. Several of our cable customers have started to transition from digital video channels to IP-based DOCSIS QAMs, which will improve high speed data services and enable our customers' networks to adopt new CCAP architectures. We are currently developing solutions based on DOCSIS 3.1 CCAP architectures, with initial product deployment scheduled for mid-2016.

Net revenue in the Americas decreased 25% and 10% in the three and nine months ended October 2, 2015, respectively, compared to the corresponding periods in 2014, primarily due to the decreased demand for our cable edge products and to a lesser extent our video processing products. The decrease in the Americas' net revenue in the three and nine months ended October 2, 2015 was primarily due to the unfavorable impacts, most notable in the third quarter of 2015, from industry consolidations and spending delays ahead of new next generation product technologies and architectures.

Net revenue in EMEA decreased 30% and 14%, respectively, in the three and nine months ended October 2, 2015 compared to the corresponding periods in 2014 with decreases across all product categories. The fragile economic and geopolitical climates in EMEA, coupled with the strengthening of the U.S. dollar, primarily drove the overall decline in revenue throughout pockets of Europe and Russia. EMEA revenue was also negatively impacted by industry consolidation in the third quarter of 2015. Net revenue in Asia-Pacific ("APAC") decreased 7% in each of the three and nine months ended October 2, 2015, compared to the corresponding periods in 2014, primarily due to softer demand for our video processing products offset in part by increased revenue from our broadcast and media customers in the APAC region.

Gross Profit

The following table presents the gross profit and gross profit as a percentage of net revenue (“gross margin”) for the three and nine months ended October 2, 2015 and September 26, 2014 (in thousands, except percentages):

29

---

Table of Contents

	Three months ended			Nine months ended		
	October 2, 2015	September 26, 2014	Q3 FY15 vs Q3 FY14	October 2, 2015	September 26, 2014	Q3 FY15 YTD vs Q3 FY14 YTD
Gross profit	\$46,231	\$53,428	\$(7,197) (13 )%	\$155,644	\$155,557	\$87 — %
As a percentage of net revenue (“gross margin”)	55.5	% 49.4	%	53.6	% 47.8	%

Our gross margins are dependent upon, among other factors, achievement of cost reductions, mix of software sales, product mix, customer mix, product introduction costs, and price reductions granted to customers.

Gross margin increased 6.1% and 5.8%, respectively, in the three and nine months ended October 2, 2015, compared to the corresponding periods in 2014. The increase in gross margin was primarily due to decreased expenses related to amortization of intangibles, operational efficiencies and product mix shifts in our product portfolio, and the reversal of customer rebate accruals.

In the three and nine months ended October 2, 2015, \$0.1 million and \$0.6 million, respectively, of amortization of intangibles were included in cost of revenue, compared to \$3.9 million and \$13.0 million, respectively, in the corresponding periods in 2014. The decreases in amortization of intangibles expense in the three and nine months ended October 2, 2015, compared to the corresponding periods in 2014, were primarily due to certain purchased intangible assets becoming fully amortized.

**Research and Development**

The following table presents the research and development expenses and the expenses as a percentage of net revenue for the three and nine months ended October 2, 2015 and September 26, 2014 (in thousands, except percentages):

	Three months ended			Nine months ended		
	October 2, 2015	September 26, 2014	Q3 FY15 vs Q3 FY14	October 2, 2015	September 26, 2014	Q3 FY15 YTD vs Q3 FY14 YTD
Research and development	\$21,679	\$22,803	\$(1,124) (5 )%	\$65,824	\$70,176	\$(4,352) (6 )%
As a percentage of net revenue	26	% 21	%	23	% 22	%

Our research and development expenses consist primarily of employee salaries and related expenses, contractors and outside consultants, supplies and materials, equipment depreciation and facilities costs, all associated with the design and development of new products and enhancements of existing products.

Research and development expenses in the three and nine months ended October 2, 2015 decreased 5% and 6%, respectively, compared to the corresponding periods in 2014. The decreases in research and development expenses were primarily due to decreased headcount and related expenses due to the reduction in our worldwide workforce related to our restructuring plan, decreased outside consulting services, decreased depreciation for testing equipment and, to a lesser extent, due to a favorable impact from the strengthened U.S. dollar on our spending denominated in Israeli shekels.

**Selling, General and Administrative**

The following table presents the selling, general and administrative expenses and the expenses as a percentage of net revenue for the three and nine months ended October 2, 2015 and September 26, 2014 (in thousands, except percentages):

	Three months ended			Nine months ended		
	October 2, 2015	September 26, 2014	Q3 FY15 vs Q3 FY14	October 2, 2015	September 26, 2014	Q3 FY15 YTD vs Q3 FY14 YTD
	\$28,966	\$32,114	\$(3,148) (10 )%	\$91,443	\$98,640	\$(7,197) (7 )%

Selling, general and administrative

As a percentage of net revenue	35	%	30	%	31	%	30	%
--------------------------------	----	---	----	---	----	---	----	---

Selling, general and administrative expenses in the three and nine months ended October 2, 2015 decreased 10% and 7%, respectively, compared to the corresponding periods in 2014, primarily due to decreased headcount and related expenses as a result of our worldwide workforce reduction related to our restructuring plans and lower variable employee compensation related expenses as well as decreased depreciation for demonstration equipment and cost containment effort in marketing related expenses.

Table of Contents

## Segment Operating Income (Loss)

The following table presents a breakdown of operating income (loss) by segment for the three and nine months ended October 2, 2015 and September 26, 2014 (in thousands, except percentages):

	Three months ended			Nine months ended			Q3 FY15 YTD vs Q3 FY14 YTD
	October 2, 2015	September 26, 2014	Q3 FY15 vs Q3 FY14	October 2, 2015	September 26, 2014		
Video	\$3,575	\$ 6,609	\$(3,034)(46)%	\$8,386	\$ 9,426		\$(1,040)(11)%
Cable Edge	(3,963)	120	(4,083)(3,403)%	2,582	3,178		(596)(19)%
Total segment operating income (loss)	\$(388)	\$ 6,729	\$(7,117)(106)%	\$10,968	\$ 12,604		\$(1,636)(13)%
Segment operating income (loss) as a % of segment revenue:							
Video	5%	8%		4%	4%		
Cable Edge	(35)%	0.4%		4%	4%		

Video segment operating margin decreased from 8% to 5% in the three months ended October 2, 2015, compared with the corresponding period in 2014, primarily due to a 12% decrease in Video segment revenue, offset in part by the favorable impact from a reduction in selling, general and administrative expenses, primarily due to decreased headcount and employee variable compensation related expenses, depreciation for demonstration equipment and cost containment effort in sales and marketing related expenses. Video segment operating margin remained relatively flat at 4% in the nine months ended October 2, 2015, compared with the corresponding period in 2014. The unfavorable impact to the Video segment operating margin from the 9% decrease in Video segment revenue in the nine months ended October 2, 2015 was offset by the favorable impact from a reduction in selling, general and administrative expenses, primarily due to decreased headcount and employee variable compensation related expenses, depreciation for demonstration equipment and cost containment effort in sales and marketing related expenses, as well as efficiencies from manufacturing and overhead spending.

Cable Edge segment operating margin decreased from 0.4% to (35)% in the three months ended October 2, 2015, compared with the corresponding period in 2014, primarily due to a 57% decrease in Cable Edge segment revenue and fewer sales of software licenses, offset in part by the reversal of a previously accrued customer rebate in the third quarter of 2015. Cable Edge segment operating margin remained relatively flat at 4% in the nine months ended October 2, 2015, compared with the corresponding period in 2014. The unfavorable impact from a 17% decrease in Cable Edge segment revenue in the nine months ended October 2, 2015 was primarily offset by efficiencies from manufacturing and overhead spending, especially for our NSG Pro products.

The following table presents a reconciliation of total segment operating income to consolidated loss before income taxes (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Total segment operating income (loss)	\$(388)	\$6,729	\$10,968	\$12,604
Unallocated corporate expenses	(510)	(403)	(739)	(915)
Stock-based compensation	(3,827)	(4,352)	(11,845)	(12,720)
Amortization of intangibles	(1,532)	(5,512)	(4,971)	(18,378)
Loss from operations	(6,257)	(3,538)	(6,587)	(19,409)
Non-operating income (expense)	178	(214)	(2,702)	(185)
Loss before income taxes	\$(6,079)	\$(3,752)	\$(9,289)	\$(19,594)

## Amortization of Intangibles

The following table presents the amortization of intangible assets charged to operating expenses and the expense as a percentage of net revenue for the three and nine months ended October 2, 2015 and September 26, 2014 (in thousands, except percentages):





Table of Contents

	Three months ended			Nine months ended		
	October 2, 2015	September 26, 2014	Q3 FY15 vs Q3 FY14	October 2, 2015	September 26, 2014	Q3 FY15 YTD vs Q3 FY14 YTD
Amortization of intangibles	\$1,446	\$1,661	\$(215 )(13 )%	\$4,338	\$5,329	\$(991 )(19 )%
As a percentage of net revenue	2	% 2	%	1	% 2	%

The decreases in amortization of intangibles expense in the three and nine months ended October 2, 2015, compared to the corresponding periods in 2014, were primarily due to certain purchased intangible assets becoming fully amortized.

**Restructuring and Related Charges**

We have implemented several restructuring plans in the past few years. The goal of these plans is to bring operational expenses to appropriate levels relative to our net revenues, while simultaneously implementing extensive company-wide expense control programs.

We account for our restructuring plans under the authoritative guidance for exit or disposal activities. The restructuring and asset impairment charges are included in “Product cost of revenue” and “Operating expenses-restructuring and related charges” in the Condensed Consolidated Statement of Operations. The following table summarizes the restructuring and related charges (in thousands):

	Three months ended		Nine months ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Restructuring and related charges in:				
Product cost of revenue	\$113	\$15	\$113	\$94
Operating expenses-Restructuring and related charges	397	388	626	821
Total restructuring and related charges	\$510	\$403	\$739	\$915

In the fourth quarter of 2014, our management approved a new restructuring plan (the “Harmonic 2015 Restructuring Plan”) to reduce 2015 operating costs and the planned restructuring activities involve headcount reduction, exiting certain operating facilities and disposing excess assets. We began the restructuring activities pursuant to this plan in the fourth quarter of 2014 and expect to complete its actions by the end of 2015. We recorded \$2.2 million of restructuring and asset impairment charges recorded under this plan in the fourth quarter of 2014, consisting of a \$1.1 million fixed asset impairment charge related to software development costs incurred for a discontinued information technology (“IT”) project, \$0.6 million of severance and benefits related to the termination of 19 employees worldwide, \$0.3 million of excess material costs associated with the termination of a research and development project and \$0.1 million of other charges. We recorded \$510,000 and \$739,000 of restructuring charges under this plan, in the three and nine months ended October 2, 2015, respectively. Such restructuring charges consisted of severance and benefits related to the termination of 22 employees.

In the three and nine months ended September 26, 2014, we recorded \$403,000 and \$915,000, respectively, under our 2013 Restructuring Plan, which consisted of severance and benefits related to the termination of 25 employees worldwide, costs associated with exiting from a research and development project, as well as costs associated with vacating from an excess facility in France. For a complete discussion of the restructuring actions related to the 2013 restructuring plan, see Note 11, “Restructuring and Asset Impairment Charges,” of the notes to Consolidated Financial Statements in the 2014 Form 10-K.

**Loss on Impairment of Long-term Investment**

We attended a VJU iTV Development GmbH (“VJU”) board meeting on March 5, 2015 as an observer. At that meeting, we were made aware of significant decreases in VJU’s business prospects, VJU’S existing working capital and

prospects for additional funding, compared to the prior information we had received from VJU. Based on our assessment, we determined that our investment in VJU was impaired on an other-than-temporary basis. Factors considered included the severity of the impairment and recent events specific to VJU. Based on our assessment of VJU's expected cash flows, the entire investment is expected to be non-recoverable. As a result, we recorded an impairment charge of \$2.5 million in the first quarter of 2015. Our impairment loss in VJU is limited to our initial cost of investment of \$2.5 million as well as the \$0.1 million research and development cost expensed in September 2014. (See Note 4, "Investments in Other Equity Securities", of the notes to our Condensed Consolidated Financial Statements for additional information).

Interest Income, Net

32

---

Table of Contents

Interest income, net was \$30,000 and \$47,000, for the three months ended October 2, 2015 and September 26, 2014, respectively. Interest income, net was \$102,000 and \$191,000, for the nine months ended October 2, 2015 and September 26, 2014, respectively.

**Other Income (Expense), Net**

Other income (expense), net is primarily comprised of foreign exchange gains and losses on cash, accounts receivable and inter-company balances denominated in currencies other than the U.S. dollar. To mitigate the volatility related to fluctuations in foreign exchange rates, we may enter into various foreign currency forward contracts (See Note 5, "Derivatives and Hedging Activities," of the notes to our Condensed Consolidated Financial Statements for additional information).

Other income (expense), net was \$148,000 and \$(261,000), for the three months ended October 2, 2015 and September 26, 2014, respectively. Other income (expense), net was \$(299,000) and \$(376,000) for the nine months ended October 2, 2015 and September 26, 2014, respectively.

**Income Taxes**

The following table presents the provision for income taxes and the provision as a percentage of net revenue for the three and nine months ended October 2, 2015 and September 26, 2014 (in thousands, except percentages):

	Three months ended			Nine months ended		
	October 2, 2015	September 26, 2014	Q3 FY15 vs Q3 FY14	October 2, 2015	September 26, 2014	Q3 FY15 YTD vs Q3 FY14 YTD
(Benefit from) provision for income taxes	\$(1,268 )	\$(4,830 )	\$3,562 (74 )%	\$(827 )	\$21,800	\$(22,627)(104 )%
As a percentage of net revenue	(2 )%	(4 )%		(0.3 )%	7 %	

We operate in multiple jurisdictions and our profits are taxed pursuant to the tax laws of these jurisdictions. Our effective income tax rate may be affected by changes in, or interpretations of tax laws and tax agreements in any given jurisdiction, utilization of net operating loss and tax credit carry forwards, changes in geographical mix of income and expense, and changes in management's assessment of matters such as the ability to realize deferred tax assets, as well as recognition of uncertain tax benefits, the effects of the statute of limitations, or settlement with tax authorities. Our effective income tax rate of 8.9% for the nine months ended October 2, 2015 was lower than the U.S. federal statutory rate of 35% primarily due to a difference in foreign tax rates and our U.S. losses generated in the nine months ended October 2, 2015 receiving no tax benefit as a result of a full valuation allowance against all of our U.S. deferred tax assets. Additionally, we recorded tax benefits from adjustments relating to our 2014 U.S. federal tax return filed in September 2015 and the reversal of uncertain tax positions resulting from the expiration of the statute of limitations. The impairment of the VJU investment (see Note 4, "Investments in Other Equity Securities") received no tax benefit.

Our effective income tax rate of (111.3)% for the nine months ended September 26, 2014 differed from the U.S. federal statutory rate of 35%, primarily due to a \$28.7 million increase in the valuation allowance against both U.S. federal, California, and other state deferred tax assets. The increased valuation allowance was a result of a history of operating losses in recent years that has led to uncertainty with respect to our ability to realize certain of our net deferred tax assets, of which \$4.2 million and \$24.5 million were recorded in the third and second quarter of 2014, respectively. This unfavorable impact was offset in part by net tax benefits of \$8.5 million associated with the release of tax reserves for uncertain tax positions as a result of the expiration of the statute of limitations, which were released in the third quarter of 2014.

**Liquidity and Capital Resources**

As of October 2, 2015, our cash and cash equivalents totaled \$61.6 million, and our short-term investments totaled \$26.0 million, and a majority of our cash, cash equivalents and short-term investments as of October 2, 2015 were held in accounts in the United States. We believe that these funds are sufficient to meet the requirements of our operations in the next 12 months, as well as any stock repurchases under our present stock repurchase program. In the

event that we need funds from our foreign subsidiaries to fund the operations in the U.S., and if U.S. tax has not already been provided, we may be required to accrue and pay additional U.S. taxes in order to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

In the event we need or desire to access funds from the short-term investments that we hold, it is possible that we may not be able to do so due to adverse market conditions. Our inability to sell all or a material portion of our short-term investments at par or our cost, or rating downgrades of issuers of these securities, could adversely affect our results of operations or financial

Table of Contents

condition. Nevertheless, we believe that our existing liquidity sources will satisfy our presently contemplated cash requirements for at least the next 12 months. However, if our expectations are incorrect, we may need to raise additional funds to fund our operations, to take advantage of unanticipated opportunities or to strengthen our financial position.

On December 22, 2014, we entered into a Credit Agreement with JPMorgan Chase Bank, N.A. (“JPMorgan”) for a \$20.0 million revolving credit facility, with a sublimit of \$10.0 million for the issuance of commercial and standby letters of credit on our behalf. Revolving loans under the Credit Agreement may be borrowed, repaid and re-borrowed until December 22, 2015, at which time all amounts borrowed must be repaid. There were no borrowings under the Credit Agreement during the nine months ended October 2, 2015. As of October 2, 2015, the amount available for borrowing under this facility, net of \$0.5 million of standby letters of credit, was \$19.5 million.

The revolving loan bears interest, at our election, at either (a) an adjusted LIBOR rate for a term of one, two or three months, plus an applicable margin of 1.75% or (b) the prime rate plus an applicable margin of -1.30%, provided that such rate shall not be less than the one month adjusted LIBOR rate, plus 2.5%. In the event that the balance of our accounts held with JPMorgan falls below \$30.0 million in aggregate total worldwide consolidated cash and short-term investments (the “Consolidated Cash Threshold”) for five consecutive business days, we are obligated to pay a one-time facility fee of \$50,000 to JPMorgan. We are also obligated to pay JPMorgan a non-usage fee equal to the average daily unused portion of the credit facility multiplied by a per annum rate of 0.25% if, during any calendar month, the balance in our accounts held with JPMorgan falls below the Consolidated Cash Threshold for five consecutive business days.

We will pay a letter of credit fee with respect to any letters of credit issued under the Credit Agreement in an amount equal to (a) in the case of a standby letter of credit, the maximum amount available to be drawn under such standby letter of credit multiplied by a per annum rate of 1.75% and (b) in the case of a commercial letter of credit, the greater of \$100 or 0.75% of the original maximum available amount of such commercial letter of credit. We will also pay other customary transaction fees and costs in connection with the issuance of letters of credit under the Credit Agreement.

Obligations under the Credit Agreement are secured only by a pledge of 66.67% of our equity interests in our foreign subsidiary, Harmonic International AG. Additionally, to the extent that we form any direct or indirect, domestic, material subsidiaries in the future, those subsidiaries will be required to provide a guaranty of our obligations under the Credit Agreement.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit our and our subsidiaries’ ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments or pay dividends, in each case subject to certain exceptions. We are also required to maintain, on a consolidated basis, total cash and marketable securities of at least \$35.0 million and EBITDA of at least \$20.0 million determined on a rolling four-quarter basis. As of October 2, 2015, we were in compliance with the covenants under the Credit Agreement.

We regularly consider potential acquisitions that would complement our existing product offerings, enhance our technical capabilities or expand our marketing and sales presence. Any future transaction of this nature could require potentially significant amounts of capital or could require us to issue our stock and dilute existing stockholders. If adequate funds are not available, or are not available on acceptable terms, we may not be able to take advantage of market opportunities, to develop new products or to otherwise respond to competitive pressures.

In addition, our ability to raise funds may be adversely affected by a number of factors relating to Harmonic, as well as factors beyond our control, including any global or regional economic slowdown, wars and conflicts, market uncertainty surrounding any necessary increases in the U.S. debt limit and its future debt obligations, and conditions

in financial markets and the industries we serve. There can be no assurance that any financing will be available on terms acceptable to us, if at all.

Table of Contents

The table below sets forth selected cash flow data for the periods presented (in thousands):

	Nine months ended	
	October 2, 2015	September 26, 2014
Net cash provided by (used in):		
Operating activities	\$8,564	\$27,521
Investing activities	(5,749	) 9,319
Financing activities	(14,040	) (84,972
Effect of foreign exchange rate changes on cash	(236	) (169
Net decrease in cash and cash equivalents	\$(11,461	) \$(48,301

**Operating Activities**

Net cash provided by operations in the nine months ended October 2, 2015 was \$8.6 million, resulting from a net loss of \$8.5 million, adjusted for \$31.6 million in non-cash gains and charges, and a \$14.5 million decrease in cash associated with the net change in operating assets and liabilities. The non-cash gains and charges primarily included stock-based compensation, depreciation, amortization of intangible assets and a \$2.5 million impairment loss on long-term investment. The net change in operating assets and liabilities primarily included increases in prepaid and other current assets and inventories, as well as decreases in accrued liabilities, which were offset in part by a decrease in accounts receivable as well as an increase in deferred revenue. The increase in prepaid and other current assets was primarily due to a \$14.2 million advance payment made to an inventory supplier in the first quarter of 2015 in order to secure more favorable pricing from the supplier. We anticipate that this amount will begin to offset in the fourth quarter of 2015 through the second quarter of 2016 against the accounts payable owed to this supplier. The decrease in accrued liabilities was primarily due to bonus payments and Employee Stock Purchase Plan purchases made in the first half of 2015 and lower accruals for salaries and benefits at the end of the third quarter of 2015. The increase in deferred revenue was primarily due to the timing of periodic service and support billings for annual contracts.

Net cash provided by operations in the nine months ended September 26, 2014 was \$27.5 million, resulting from a net loss of \$41.4 million, adjusted for \$78.3 million in non-cash gains and charges, and a \$9.4 million decrease in cash associated with the net change in operating assets and liabilities. The non-cash gains and charges primarily included \$31.8 million adjustments to deferred income taxes, primarily related to increase in our U.S. federal and California tax valuation allowances as a result of our history of recent operating losses that has led to uncertainty with respect to our ability to realize certain of our net deferred tax assets. The non-cash gains and charges also included amortization of intangible assets, stock-based compensation, depreciation, and provisions for excess and obsolete inventories and provision for doubtful accounts, returns and discounts. The net change in operating assets and liabilities included increases in prepaid and other current assets and accounts receivables, as well as decreases in income tax payable and accrued liabilities, which were offset in part by decreases in inventories, as well as increases in deferred revenue. The decrease in income tax payable was primarily due to the reversal of federal income tax reserves as a result of the expiration of the statute of limitations for our 2010 tax year in the United States in the third quarter of 2014. The decrease in accrued liabilities was primarily due to a lower accrual for salaries and benefits and employee bonuses as well as a lower commission accrual at the end of September 2014. The increase in prepaid and other assets was primarily related to an advance payment for the purchase of software license. The increase in deferred revenue was primarily due to the timing of periodic service and support billings for annual contracts.

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, shipment linearity, accounts receivable collections performance, inventory and supply chain management, income tax reserves adjustments, and the timing and amount of compensation and other payments. We usually pay our annual incentive compensation to employees in the first quarter.

**Investing Activities**

Net cash used in investing activities was \$5.7 million in the nine months ended October 2, 2015, resulting from the purchase of short-term investments of \$20.7 million, capital expenditures of \$10.4 million and a \$1.1 million increase



in restricted cash, offset in part by proceeds from maturity of investments of \$26.5 million. The increase in restricted cash was primarily related to cash deposits in Israel that serve as collateral for rent guarantees on certain operating leases as well as collateral for our corporate card credit facility in Switzerland. These restricted funds are invested in bank deposits and cannot be withdrawn from our accounts without the prior written consent of the applicable secured party.

35

---

## Table of Contents

Net cash provided by investing activities was \$9.3 million in the nine months ended September 26, 2014, resulting from the net proceeds from the net sale and maturity of investments of \$50.6 million, offset in part by the purchase of short-term investments of \$26.6 million, capital expenditures of \$8.9 million and purchases of long-term investments of \$5.9 million.

### Financing Activities

Net cash used in financing activities was \$14.0 million in the nine months ended October 2, 2015, primarily resulting from \$20.0 million of payments for the repurchase of common stock in connection with our stock repurchase program and \$3.3 million of payment for withholding tax obligations related to net share settlements of restricted stock units, offset in part by \$9.3 million of proceeds from the issuance of common stock related to our equity incentive plans.

Net cash used in financing activities was \$85.0 million in the nine months ended September 26, 2014, primarily resulting from \$86.4 million of payments for the repurchase of common stock in connection with our stock repurchase program and \$3.1 million of payment for withholding tax obligations related to net share settlements of restricted stock units, offset in part by \$4.3 million of proceeds from the issuance of common stock related to our equity incentive plans and \$0.2 million of excess tax benefits from stock-based compensation.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as of October 2, 2015.

### Contractual Obligations and Commitments

As of October 2, 2015, we had approximately \$21.2 million of non-cancelable purchase order commitments. There were no other significant changes to our contractual obligations and commitments in the nine months ended October 2, 2015, from such information presented in the 2014 Form 10-K.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the operating results, financial position or our liquidity due to adverse changes in market prices and rates. We are exposed to market risk because of changes in interest rates, foreign currency exchange rates, as measured against the U.S. dollar and currencies held by our subsidiaries, and changes in the value of financial instruments held by us.

### Foreign Currency Exchange Risk

We operate in international markets, which expose us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies.

We have certain international customers who are billed in their local currency, primarily the Euro, British pound and Japanese yen. Sales denominated in foreign currencies were approximately 10% and 11% of revenue in the first nine months of 2015 and 2014, respectively. In addition, a portion of our operating expenses, primarily the cost of personnel to deliver technical support on our products and professional services, sales support and research and development, are denominated in foreign currencies, primarily the Israeli shekel. We use derivative instruments, primarily forward contracts, to manage exposures to foreign currency exchange rates and we do not enter into foreign currency forward contracts for trading purposes.

### Derivatives Designated as Hedging Instruments (Cash Flow Hedges)

Beginning December 2014, we entered into forward currency contracts to hedge forecasted operating expenses and service cost related to employee salaries and benefits denominated in Israeli shekels (“ILS”) for our subsidiaries in Israel. These ILS forward contracts mature generally within 12 months and are designated as cash flow hedges. The effective portion of the gains or losses on the derivative is reported as a component of “Accumulated other comprehensive income (loss)” (“AOCI”) in the Condensed Consolidated Balance Sheets and subsequently reclassified into earnings in the same period during which the hedged transactions are recognized in earnings. If the hedge program becomes ineffective or if the underlying forecasted transaction does not occur for any reason, or it becomes probable that it will not occur, the gain or loss on the related derivative will be reclassified from AOCI to earnings immediately.

Derivatives Not Designated as Hedging Instruments (Balance Sheet Hedges)

We also enter into forward currency contracts to hedge foreign currency denominated monetary assets and liabilities. These derivative instruments are marked to market through earnings every period and mature generally within three months. Changes in the fair value of these foreign currency forward contracts are recognized in “Other income (expense), net” in the Condensed Consolidated Statement of Operations, net and are largely offset by the changes in the fair value of the assets or liabilities being hedged.

The U.S. dollar equivalents of all outstanding notional amounts of foreign currency forward contracts are summarized as follows (in thousands):

36

---

Table of Contents

	October 2, 2015	December 31, 2014
Derivatives designated as cash flow hedges:		
Purchase	\$14,280	\$16,903
Derivatives not designated as hedging instruments:		
Purchase	\$8,244	\$1,043
Sell	\$7,827	\$4,925

## Interest rate and credit risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio of marketable debt securities of various issuers, types and maturities and to our borrowings under the bank line of credit facility. As of October 2, 2015, our cash, cash equivalents and short-term investments balance was \$87.6 million and we had no borrowings during the nine months ended October 2, 2015. Our short-term investments are classified as available for sale and are carried at estimated fair value with unrealized gains and losses reported in “accumulated other comprehensive income (loss)”. For the first nine months of 2015 and 2014, realized gains and realized losses from the sale of investments were not material. The \$17,000 of unrealized gain from available-for-sale investments for the nine months ended October 2, 2015 was primarily related to our investment in Vislink, plc (“Vislink”), a U.K. public company listed on the AIM exchange (See Note 4, “Investments in Other Equity Securities,” of the notes to our Condensed Consolidated Financial Statements for additional information). As of October 2, 2015, our maximum exposure to loss from the Vislink investment was limited to our initial investment cost of \$3.3 million.

We do not use derivative instruments in our investment portfolio and our investment portfolio only includes highly liquid instruments. These instruments, as with all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. Conversely, a decline in interest rates will decrease the interest income from our investment portfolio. We attempt to limit this exposure by investing primarily in short-term and investment-grade instruments with original maturities of less than two years.

We performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of our investment portfolio. Based on our investment positions as of October 2, 2015, a hypothetical 100 basis point increase in interest rates would result in a \$0.1 million decline in fair market value of our portfolio. Such losses would only be realized if we sold the investments prior to maturity. A hypothetical decrease in market interest rates by 10% will result in a decline in interest income from our investment portfolio by less than \$0.1 million.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

During the quarterly period covered by this Form 10-Q, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in lawsuits as well as subject to various legal proceedings, claims, threats of litigation, and investigations in the ordinary course of business, including claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment, and other matters. While certain matters to which we are a party may specify the damages claimed, such claims may not represent reasonably possible losses. Given the inherent uncertainties of litigation, the ultimate outcome of these matters cannot be predicted at this time, nor can the amount of possible loss or range of loss, if any, be reasonably estimated.

In October 2011, Avid Technology, Inc. (“Avid”) filed a complaint in the U.S. District Court for the District of Delaware alleging that our Media Grid product infringes two patents held by Avid. A jury trial on this complaint commenced on January 23, 2014 and, on February 4, 2014, the jury returned a unanimous verdict in our favor, rejecting Avid’s infringement allegations in their entirety. On May 23, 2014, Avid filed a post-trial motion asking the court to set aside the jury’s verdict, and the judge issued an order on December 17, 2014, denying the motion. On January 5, 2015, Avid filed an appeal with respect to the jury’s verdict with the Federal Circuit, which was docketed on January 9, 2015, as Case No. 2015-1246. Avid filed its opening brief with respect to this appeal on March 24, 2015, we filed our response brief on May 7, 2015, and Avid filed its reply brief on June 16, 2015. An order has not yet been issued regarding the scheduling of oral arguments.

In June 2012, Avid served a subsequent complaint in the U.S. District Court for the District of Delaware alleging that our Spectrum product infringes one patent held by Avid. The complaint seeks injunctive relief and unspecified damages. In September 2013, the U.S. Patent Trial and Appeal Board (“PTAB”) authorized an inter partes review to be instituted as to claims 1-16 of the patent asserted in this second complaint. A hearing before the PTAB was conducted on May 20, 2014. On July 10, 2014, the PTAB issued a decision finding claims 1 - 10 invalid and claims 11 - 16 not invalid. We filed an appeal with respect to the PTAB’s decision on claims 11 - 16 on September 11, 2014. The appeal was docketed with the Federal Circuit on October 22, 2014, as Case No. 2015-1072, and we filed our opening brief with respect to this appeal on January 29, 2015. Avid and PTAB each filed a response brief on April 27, 2015, and we filed a reply brief on May 28, 2015. Oral arguments were held on October 8, 2015. The Federal Circuit has not yet issued an order in this matter.

We are unable to predict the outcome of these lawsuits and therefore are unable to estimate an amount or range of any reasonably possible losses resulting from them. An unfavorable outcome on any litigation matter could require us to pay substantial damages, or, in connection with any intellectual property infringement claims, could require that we pay ongoing royalty payments or could prevent us from selling certain of our products. As a result, a settlement of, or an unfavorable outcome on, any of the matters referenced above or other litigation matters could have a material adverse effect on our business, operating results, financial condition and cash flows.

ITEM 1A. RISK FACTORS

We depend on cable, satellite and telco, and broadcast and media industry capital spending for our revenue and any material decrease or delay in capital spending in any of these industries would negatively impact our operating results, financial condition and cash flows.

Our revenue has been derived from worldwide sales to service providers and broadcast and media companies, as well as, more recently, emerging streaming media companies. We expect that these markets will provide our revenue for the foreseeable future. Demand for our products will depend on the magnitude and timing of capital spending by customers in each of these markets for the purpose of creating, expanding or upgrading their systems. These capital spending patterns are dependent on a variety of factors, including:

- the impact of general economic conditions, actual and projected;
- access to financing;
- annual capital spending budget cycles of each of the industries we serve;
- the impact of industry consolidation;

Table of Contents

- customers suspending or reducing capital spending in anticipation of: (i) new standards, such as HEVC and DOCSIS 3.1; (ii) industry trends and technology shifts, such as virtualization, and (iii) new products, such as products based on the VOS software platform or the CCAP architecture;
- federal, state, local and foreign government regulation of telecommunications, television broadcasting and streaming media;
- overall demand for communication services and consumer acceptance of new video and data technologies and services;
- competitive pressures, including pricing pressures;
- the impact of fluctuations in currency exchange rates; and
- discretionary end-user customer spending patterns.

In the past, specific factors contributing to reduced capital spending have included:

- weak or uncertain economic and financial conditions in the U.S. or one or more international markets;
- uncertainty related to development of digital video industry standards;
- delays in evaluations of new services, new standards and systems architectures by many operators;
- emphasis by operators on generating revenue from existing customers, rather than from new customers, through construction, expansion or upgrades;
- a reduction in the amount of capital available to finance projects of our customers and potential customers;
- proposed and completed business combinations and divestitures by our customers and the length of regulatory review of each;
- completion of a new system or significant expansion or upgrade to a system; and
- bankruptcies and financial restructuring of major customers.

In the past, adverse economic conditions in one or more of the geographies in which we offer our products have adversely affected our customers' capital spending in those geographies and, as a result, our business. During challenging economic times, and in tight credit markets, many customers may delay or reduce capital expenditures. This could result in reductions in revenue from our products, longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition. If global economic and market conditions, or economic conditions in the U.S., Europe or other key markets, deteriorate, we could experience a material and adverse effect on our business, results of operations, financial condition and cash flows. Additionally, since most of our international revenue is denominated in U.S. dollars, global economic and market conditions may impact currency exchange rates and cause our products to become relatively more expensive to customers in a particular country or region, which could lead to delayed or reduced capital spending in those countries or regions, thereby negatively impacting our business and financial condition.



In addition, industry consolidation has in the past constrained, and may in the future constrain or delay, capital spending by our customers. Further, if our product portfolio and product development plans do not position us well to capture an increased portion of the capital spending of customers in the markets on which we focus, our revenue may decline.

As a result of these capital spending issues, we may not be able to maintain or increase our revenue in the future, and our operating results, financial condition and cash flows could be materially and adversely affected.

The markets in which we operate are intensely competitive.

The markets for our products are extremely competitive and have been characterized by rapid technological change and declining average sales prices in the past. Our competitors in our Video business segment include vertically integrated system suppliers, such as Arris Group, Cisco Systems and Ericsson, and, in certain product lines, a number of other companies

Table of Contents

including ATEME, Sumavision Technologies and Thomson Video Networks. With respect to production and playout products, competitors include Evertz Microsystems, EVS, Grass Valley (a Belden brand) and Imagine Communications. Our competitors in our Cable Edge business include Arris, Casa Systems and Cisco Systems.

Many of our competitors are substantially larger, or as a result of consolidation activity have become larger, and have greater financial, technical, marketing and other resources than we have, and have been in operation longer than we have. Consolidation in the industry has led to the acquisition of a number of our historic competitors over the last several years. For example, Motorola Home, BigBand Networks and C-Cor were acquired by Arris; NDS and Scientific Atlanta were acquired by Cisco Systems; Tandberg Television and Envivio were acquired by Ericsson; Elemental Technologies was acquired by Amazon; and Miranda Technologies and Grass Valley were acquired by Belden Inc.

In addition, some of our larger competitors have more long-standing and established relationships with domestic and foreign customers. Many of these large enterprises are in a better position to withstand any significant reduction in capital spending by customers in our markets. They often have broader product lines and market focus, and may not be as susceptible to downturns in a particular market. These competitors may also be able to bundle their products together to meet the needs of a particular customer, and may be capable of delivering more complete solutions than we are able to provide. To the extent large enterprises that currently do not compete directly with us choose to enter our markets by acquisition or otherwise, competition would likely intensify.

Further, some of our competitors that have greater financial resources have offered, and in the future may offer, their products at lower prices than we offer for our competing products or on more attractive financing or payment terms, which has in the past caused, and may in the future cause, us to lose sales opportunities and the resulting revenue or to reduce our prices in response to that competition. Also, some competitors that are smaller than we are have engaged in, and may continue to engage in, aggressive price competition in order to gain customer traction and market share. Reductions in prices for any of our products could materially and adversely affect our operating margins and revenue.

Additionally, certain customers and potential customers have developed, and may continue to develop, their own solutions that may cause such customers or potential customers to not consider our product offerings or to displace our installed products with their own solutions. The growing availability of open source codecs and related software, as well as new server chipsets that incorporate encoding technology, has, in certain respects, lowered the barriers to entry for the video processing industry. The development of solutions by potential and existing customers and the reduction of the barriers to entry to enter the video processing industry could result in increased competition and adversely affect our results of operations and business.

If any of our competitors' products or technologies were to become the industry standard, our business could be seriously harmed. If our competitors are successful in bringing their products to market earlier than us, or if these products are more technologically capable than ours, our revenue could be materially and adversely affected.

We need to develop and introduce new and enhanced products in a timely manner to meet the needs of our customers and to remain competitive.

All of the markets we address are characterized by continuing technological advancement, changes in customer requirements and evolving industry standards. To compete successfully, we must continually design, develop, manufacture and sell new or enhanced products that provide increasingly higher levels of performance and reliability and meet our customers changing needs. However, we may not be successful in those efforts if, among other things, our products:

- are not cost effective;

- are not brought to market in a timely manner;
- are not in accordance with evolving industry standards;
- fail to meet market acceptance or customer requirements; or
- are ahead of the needs of their markets.

We are currently developing and marketing products based on established video compression standards, such as HEVC, which provides significantly greater compression efficiency, thereby making more bandwidth available to operators. At the same time, we continue to devote development resources to enhance the existing MPEG-4 AVC/H.264 compression of our products, which

Table of Contents

many of our customers continue to require. There can be no assurance that these efforts will be successful in the near future, or at all, or that our competitors will not take significant market share in encoding or transcoding.

In order to attempt to meet fast paced, dynamic, evolving standards and customer requirements, we are intensifying our development efforts on a number of our product solutions in our Video and Cable Edge businesses. In 2014, we announced our VOS solution, a software-based, fully virtualized platform that we are developing to unify the entire media processing chain, from ingest to delivery, and which is designed to operate on common server hardware in data center environments. We also recently introduced the Electra XVM software product, our first video media processing and encoding product based on this platform. We believe some of our customers have been delaying their purchase decisions until products based on our new VOS software platform and incorporating Ultra HD and HEVC technologies are deployed, which has adversely affected our revenue from video products in recent periods. In our Cable Edge business, we recently introduced the NSG Exo distributed CCAP product, and we continue to develop, market and sell our NSG Pro centralized CCAP product solutions.

Many of these products and initiatives are intended to integrate existing and new features and functions in response to shifts in customer demands in the relevant market, as well as to general technology trends (such as virtualized and cloud-based computing, and integrated QAM and CMTS functionality in CCAP-based products) that we believe will significantly impact our industry. The success of these significant and costly development efforts will be predicated, for certain products and initiatives, on the timing of market adoption of the new standards on which the resulting products are based, and for other products, the timing of customer adoption of our products and solutions, as well as our ability to timely develop the features and capabilities of our products and solutions. If new standards or some of our new products are adopted later than we predict or not adopted at all, or if adoption occurs earlier than we are able to deliver the applicable products or functionality, we risk spending significant research and development time and dollars on products or features that may never achieve market acceptance or that miss the customer demand window and thus do not produce the revenue that a timely introduction would have likely produced.

If we fail to develop and market new and enhanced products on a timely basis, our operating results, financial condition and cash flows could be materially and adversely affected.

Our CCAP-based product initiatives expose us to certain technology transition risks that may adversely impact our operating results, financial condition and cash flows.

In the last few years, the cable industry has begun to develop and promulgate the CCAP architecture for next-generation cable edge solutions, which combines edge QAM and CMTS functions in a single system in order to combine resources for video and data delivery. We believe CCAP-based systems will significantly reduce cable headend costs and increase operational efficiency, and are an important step in cable operators' transition to all-IP networks. We have begun to market and sell centralized and distributed CCAP-based products, and are developing the CMTS capabilities in our centralized CCAP products and universal edge QAM capabilities in our distributed CCAP products to make our products fully-compliant with current CCAP architecture standards. If we are unsuccessful in developing these capabilities in a timely manner, or are otherwise delayed in making such capabilities available to our customers, our business may be adversely impacted, particularly if our competitors develop and market fully compliant products before we do.

We believe CCAP-based systems may, over time, replace and make obsolete current cable edge QAM solutions, including our cable edge QAM products, as well as current CMTS solutions, which is a market our products have previously not addressed. If demand for our CCAP-based systems is weaker than expected, or sales of our CCAP-based systems do not adequately offset the expected decline in demand for our non-CCAP cable edge products, or the decline in demand for our non-CCAP cable edge products is more rapid and precipitous than expected, our near and long-term operating results, financial condition and cash flows could be adversely impacted. Moreover, if a new

or competitive architecture for next-generation cable edge solutions is promulgated that renders our CCAP-based systems obsolete, our business may be adversely impacted.

Our future growth depends on market acceptance of several broadband services, on the adoption of new broadband technologies, and on several other broadband industry trends.

Future demand for many of our products will depend significantly on the growing market acceptance of emerging broadband services, including digital video, VOD, HDTV, IP video services (particularly streaming to tablet computers, connected TVs and mobile devices), and very high-speed data services. The market demand for such emerging services is rapidly growing, with many custom or proprietary systems in use, which increases the challenge of delivering interoperable products intended to address the requirements of such services.

Table of Contents

The effective delivery of these services will depend, in part, on a variety of new network architectures, standards and devices, such as:

- the adoption of advanced video compression standards, such as next generation H.264 compression and HEVC;
- the CCAP architecture;
- fiber to the premises, or FTTP, networks designed to facilitate the delivery of video services by telcos;
- the greater use of protocols such as IP;
- the further adoption of bandwidth-optimization techniques, such as DOCSIS 3.0 and DOCSIS 3.1; and
- the introduction of new consumer devices, such as advanced set-top boxes, DVRs and NDVRs, connected TVs, tablet computers, and a variety of smart phone mobile devices.

If adoption of these emerging services and/or technologies is not as widespread or as rapid as we expect, or if we are unable to develop new products based on these technologies on a timely basis, our operating results, financial condition and cash flows could be materially and adversely affected.

Furthermore, other technological, industry and regulatory trends and requirements may affect the growth of our business.

These trends and requirements include the following:

- convergence, or the need of network operators to deliver a package of video, voice and data services to consumers, including mobile delivery options;
- the increasing availability of traditional broadcast video content and video-on-demand on the Internet;
- adoption of high-bandwidth technology, such as DOCSIS 3.x, next generation LTE and FTTP;
- the use of digital video by businesses, governments and educational institutions;
- efforts by regulators and governments in the U.S. and internationally to encourage the adoption of broadband and digital technologies, as well as to regulate broadband access and delivery;
- consumer interest in higher resolution video such as Ultra HD or retina-display technologies on mobile devices;
- the need to develop partnerships with other companies involved in video infrastructure workflow and broadband services;
- the continued adoption of the television viewing behaviors of consumers in developed economies by the growing middle class across emerging economies;
- the extent and nature of regulatory attitudes towards such issues as network neutrality, competition between operators, access by third parties to networks of other operators, local franchising requirements for telcos to offer video, and other new services, such as mobile video; and

- the outcome of disputes and negotiations between content owners and service providers regarding rights of service providers to store and distribute recorded broadcast content, which outcomes may drive adoption of one technology over another in some cases.

If we fail to recognize and respond to these trends, by timely developing products, features and services required by these trends, we are likely to lose revenue opportunities and our operating results, financial condition and cash flows could be materially and adversely affected.

We depend significantly on our international revenue and are subject to the risks associated with international operations, including those of our resellers, contract manufacturers and outsourcing partners, which may negatively affect our operating results.

Table of Contents

Revenue derived from customers outside of the U.S. in each of the first nine months of 2015 and 2014 represented approximately 52% of our revenue. Although no assurance can be given with respect to international sales growth in any one or more regions, we expect that international revenue will likely continue to represent, from year to year, a majority, and potentially increasing, percentage of our annual revenue for the foreseeable future. A significant percentage of our revenue is generated from sales to resellers, value-added resellers (“VARs”) and systems integrators, particularly in emerging market countries. Furthermore, a significant percentage of our employees are based in our international offices and locations, and most of our contract manufacturing occurs outside of the U.S. In addition, we outsource a portion of our research and development activities to certain third party partners with development centers located in different countries, particularly Ukraine and India.

Our international operations, the international operations of our resellers, contract manufacturers and outsourcing partners, and our efforts to maintain and increase revenue in international markets are subject to a number of risks, which are generally greater with respect to emerging market countries, including the following:

- growth and stability of the economy in one or more international regions;
- fluctuations in currency exchange rates;
- changes in foreign government regulations and telecommunications standards;
- import and export license requirements, tariffs, taxes and other trade barriers;
- our significant reliance on resellers and others to purchase and resell our products and solutions, particularly in emerging market countries;
- availability of credit, particularly in emerging market countries;
- difficulty in collecting accounts receivable, especially from smaller customers and resellers, particularly in emerging market countries;
- compliance with the U.S. Foreign Corrupt Practices Act (the “FCPA”), the U.K. Bribery Act, particularly in emerging market countries and/or similar anti-corruption and anti-bribery laws;
- the burden of complying with a wide variety of foreign laws, treaties and technical standards;
- fulfilling “country of origin” requirements for our products for certain customers;
- difficulty in staffing and managing foreign operations;
- business and operational disruptions or delays caused by political, social and economic instability and unrest, including risks related to terrorist activity, particularly in emerging market countries (e.g., recent significant civil, political and economic disturbances in Russia and Ukraine);
- changes in economic policies by foreign governments, including the imposition and potential continued expansion of economic sanctions by the U.S. and the European Union on the Russian Federation; and
- business and economic disruptions and delays caused by outbreaks of disease, epidemics and potential pandemics.



We have certain international customers who are billed in their local currency, primarily the Euro, British pound and Japanese yen, which subjects us to foreign currency risk. In addition, a portion of our operating expenses relating to the cost of certain international employees, are denominated in foreign currencies, primarily the Israeli shekel, British pound, Euro, Singapore dollar, Chinese yuan and Indian rupee, although we do hedge against the Israeli shekel. Gains and losses on the conversion to U.S. dollars of accounts receivable, accounts payable and other monetary assets and liabilities arising from international operations may contribute to fluctuations in our operating results. Furthermore, payment cycles for international customers are typically longer than those for customers in the U.S. Unpredictable payment cycles could cause us to fail to meet or exceed the expectations of security analysts and investors for any given period.

Most of our international revenue is denominated in U.S. dollars, and fluctuations in currency exchange rates could cause our products to become relatively more expensive to customers in a particular country or region, leading to a reduction in revenue or profitability from sales in that country or region. The potential negative impact of a strong U.S. dollar on our business may

Table of Contents

be exacerbated by the significant devaluation of a number of foreign currencies. Also, if the U.S. dollar were to weaken against many foreign currencies, there can be no assurance that a weaker dollar would lead to growth in capital spending in foreign markets.

Our operations outside the U.S. also require us to comply with a number of U.S. and international regulations that prohibit improper payments or offers of payments to foreign governments and their officials and political parties for corrupt purposes. For example, our operations in countries outside the U.S. are subject to the FCPA and similar laws, including the U.K. Bribery Act. Our activities in certain emerging countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents or channel partners that could be in violation of various anti-corruption laws, even though these parties may not be under our control. Under the FCPA and U.K. Bribery Act, companies may be held liable for the corrupt actions taken by their directors, officers, employees, channel partners, sales agents, consultants, or other strategic or local partners or representatives. We have internal control policies and procedures with respect to FCPA compliance, have implemented FCPA training and compliance programs for our employees, and include in our agreements with resellers a requirement that those parties comply with the FCPA. However, we cannot provide assurances that our policies, procedures and programs will prevent violations of the FCPA or similar laws by our employees or agents, particularly in emerging market countries, and as we expand our international operations. Any such violation, even if prohibited by our policies, could result in criminal or civil sanctions against us.

The effect of one or more of these international risks could have a material and adverse effect on our business, financial condition, operating results and cash flows.

We purchase several key components, subassemblies and modules used in the manufacture or integration of our products from sole or limited sources, and we rely on contract manufacturers and other subcontractors.

Many components, subassemblies and modules necessary for the manufacture or integration of our products are obtained from a sole supplier or a limited group of suppliers. For example, we depend on one supplier for certain video encoding chips which are incorporated into several products. Our reliance on sole or limited suppliers, particularly foreign suppliers, and our reliance on contractors for manufacturing and installation of our products, involves several risks, including a potential inability to obtain an adequate supply of required components, subassemblies or modules; reduced control over costs, quality and timely delivery of components, subassemblies or modules; supplier discontinuation of components, subassemblies or modules we require; and timely installation of products.

These risks could be heightened during a substantial economic slowdown, because our suppliers and subcontractors are more likely to experience adverse changes in their financial condition and operations during such a period. Further, these risks could materially and adversely affect our business if one of our sole sources, or a sole source of one of our suppliers or contract manufacturers, is adversely affected by a natural disaster. While we expend resources to qualify additional component sources, consolidation of suppliers and the small number of viable alternatives have limited the results of these efforts. Managing our supplier and contractor relationships is particularly difficult during time periods in which we introduce new products and during time periods in which demand for our products is increasing, especially if demand increases more quickly than we expect.

Plexus Services Corp., which manufactures our products at its facilities in Malaysia, currently serves as our primary contract manufacturer, and currently provides us with a substantial majority, by dollar amount, of the products that we purchase from our contract manufacturers. Most of the products manufactured by our Israeli operations are outsourced to another third party manufacturer in Israel. From time to time we assess our relationship with our contract manufacturers, and we do not generally maintain long-term agreements with any of our suppliers or contract manufacturers. Our agreement with Plexus has automatic annual renewals, unless prior notice is given by either party,

and has been automatically renewed until October 2016.

Difficulties in managing relationships with any of our current contract manufacturers, particularly Plexus, that manufacture our products off-shore, or any of our suppliers of key components, subassemblies and modules used in our products, could impede our ability to meet our customers' requirements and adversely affect our operating results. An inability to obtain adequate and timely deliveries of our products or any materials used in our products, or the inability of any of our contract manufacturers to scale their production to meet demand, or any other circumstance that would require us to seek alternative sources of supply, could negatively affect our ability to ship our products on a timely basis, which could damage relationships with current and prospective customers and harm our business and materially and adversely affect our revenue and other operating results. Furthermore, if we fail to meet customers' supply expectations, our revenue would be adversely affected and we may lose sales opportunities, both short and long term, which could materially and adversely affect our business, operating results, financial condition and cash flows. Increases, from time to time, in demand on our suppliers and subcontractors from our customers or from other parties have, on occasion, caused delays in the availability of certain components and products. In response, we may increase our inventories of certain components and products and expedite shipments of our products when necessary. These

45

---

Table of Contents

actions could increase our costs and could also increase our risk of holding obsolete or excess inventory, which, despite our use of a demand order fulfillment model, could materially and adversely affect our business, operating results, financial condition and cash flows.

The loss of one or more of our key customers, a failure to continue diversifying our customer base, or a decrease in the number of larger transactions could harm our business and our operating results.

Historically, a significant portion of our revenue has been derived from relatively few customers, due in part to the consolidation of the ownership of cable television and direct broadcast satellite system companies. Sales to our top ten customers in the first nine months of 2015 and 2014 accounted for approximately 34% and 37% of our revenue, respectively. Although we have broadened our customer base by further penetrating new markets and expanding internationally, we expect to see continuing industry consolidation and customer concentration.

In the first nine months of 2015 and 2014, revenue from Comcast accounted for approximately 13% and 18% of our revenue, respectively, and further consolidation in the cable industry could lead to additional revenue concentration for us. The loss of Comcast or any other significant customer, any material reduction in orders by Comcast or any other significant customer, or our failure to qualify our new products with a significant customer could materially and adversely affect, either long term or in a particular quarter, our operating results, financial condition and cash flows. In addition, we are involved in most quarters in one or more relatively large individual transactions. A decrease in the number of the relatively larger individual transactions in which we are involved in any quarter could materially and adversely affect our operating results for that quarter.

As a result of these and other factors, we may be unable to increase our revenues from some or all of the markets we address, or to do so profitably, and any failure to increase revenues and profits from these customers could materially and adversely affect our operating results, financial condition and cash flows.

We rely on resellers, value-added resellers and systems integrators for a significant portion of our revenue, and disruptions to, or our failure to develop and manage our relationships with these customers or the processes and procedures that support them could adversely affect our business.

We generate a significant percentage of our revenue through sales to resellers, VARs and systems integrators that assist us with fulfillment or installation obligations. We expect that these sales will continue to generate a significant percentage of our revenue in the future. Accordingly, our future success is highly dependent upon establishing and maintaining successful relationships with a variety of channel partners.

We generally have no long-term contracts or minimum purchase commitments with any of our reseller, VAR or system integrator customers, and our contracts with these parties do not prohibit them from purchasing or offering products or services that compete with ours. Our competitors may provide incentives to any of our reseller, VAR or systems integrator customers to favor their products or, in effect, to prevent or reduce sales of our products. Any of our reseller, VAR or systems integrator customers may independently choose not to purchase or offer our products. Many of our resellers, and some of our VARs and system integrators are small, are based in a variety of international locations, and may have relatively unsophisticated processes and limited financial resources to conduct their business. Any significant disruption of our sales to these customers, including as a result of the inability or unwillingness of these customers to continue purchasing our products, or their failure to properly manage their business with respect to the purchase of, and payment for, our products, could materially and adversely affect our business, operating results, financial condition and cash flows. In addition, our failure to continue to establish or maintain successful relationships with reseller, VAR and systems integrator customers could likewise materially and adversely affect our business, operating results, financial condition and cash flows.

We may not be able to effectively manage our operations or implement strategic organizational initiatives.

We have grown significantly, primarily through acquisitions, and expanded our international operations. Upon the closing of our acquisition of Scopus in 2009, we added 221 employees, most of whom are based in Israel. Upon the closing of the acquisition of Omneon in 2010, we added 286 employees, most of whom are based in the U.S.

As of October 2, 2015, we had 489 employees in our international operations, representing approximately 48% of our worldwide workforce. Our ability to manage our business effectively in the future, including with respect to any future growth, our operation as both a hardware and increasingly software-centric business, the integration of any acquisition efforts, and the breadth of our international operations, will require us to train, motivate and manage our employees successfully, to attract and integrate new employees into our overall operations, to retain key employees and to continue to improve and evolve our operational, financial and management systems. There can be no assurance that we will be successful in any of these efforts,

Table of Contents

and our failure to effectively manage our operations could have a material and adverse effect on our business, operating results, cash flows and financial condition.

The fact that our employees are spread out in offices around the world also may present additional challenges when we initiate certain strategic initiatives. For example, we have an ongoing program to increase the efficiency and effectiveness of our worldwide sales organization. There can be no assurance that this initiative will achieve success or improve our revenue, operating results or financial condition. We may encounter communication, coordination, management and motivational challenges as we work to align our global sales teams with the stated objectives of this program, which could cause disruptions and delays within the sales organization and in their sales activities. In addition, the investment and costs associated with this strategic initiative may be greater than anticipated, and may outweigh any benefits achieved, which could adversely affect our operating results.

We face risks associated with having outsourced engineering resources located in Ukraine.

We outsource a portion of our research and development activities to a third-party partner with engineering resources located in Ukraine. Political, social and economic instability and unrest or violence in Ukraine, including the ongoing conflict with Russian-backed separatists or conflict with the Russian Federation directly, could cause disruptions to the business and operations of our outsourcing partner, which could slow or delay the development work our partner is undertaking for us. Instability, unrest or conflict could limit or prevent our employees from traveling to, from, or within Ukraine to direct and coordinate our outsourced engineering teams, or cause us to shift all or portions of the development work occurring in Ukraine to other locations or countries. The resulting delays could negatively impact our product development efforts, operating results and our business.

We face risks associated with having facilities and employees located in Israel.

As of October 2, 2015, we maintained facilities in two locations in Israel with a total of 173 employees, or approximately 17% of our worldwide workforce. Our employees in Israel engage in a number of activities, including research and development, product development, and supply chain management for certain product lines and sales activities.

As such, we are directly affected by the political, economic and military conditions affecting Israel. Any significant conflict involving Israel could have a direct effect on our business or that of our Israeli contract manufacturers, in the form of physical damage or injury, restrictions from traveling or reluctance to travel to from or within Israel by our Israeli and other employees or those of our subcontractors, or the loss of Israeli employees to active military duty. Most of our employees in Israel are currently obligated to perform annual reserve duty in the Israel Defense Forces, and approximately 11% of those employees were called for active military duty in 2014. In the event that more of our employees are called to active duty, certain of our research and development activities may be significantly delayed and adversely affected. Further, the interruption or curtailment of trade between Israel and its trading partners, as a result of terrorist attacks or hostilities, conflicts between Israel and any other Middle Eastern country or organization, or any other cause, could significantly harm our business. Additionally, current or future tensions or conflicts in the Middle East could materially and adversely affect our business, operating results, financial condition and cash flows.

Our operating results are likely to fluctuate significantly and, as a result, may fail to meet or exceed the expectations of securities analysts or investors, causing our stock price to decline.

Our operating results have fluctuated in the past and are likely to continue to fluctuate in the future, on an annual and a quarterly basis, as a result of several factors, many of which are outside of our control. Some of the factors that may cause these fluctuations include:

- the level and timing of capital spending of our customers in the U.S., Europe and in other foreign markets;
- economic and financial conditions specific to each of the cable, satellite and telco, and broadcast and media industries, as well as general economic and financial market conditions;
- changes in market acceptance of and demand for our products or our customers' services or products;
- the timing and amount of orders, especially from large individual transactions and transactions with our significant customers;
- the mix of our products sold and the effect it has on gross margins;

Table of Contents

- the timing of revenue recognition, including revenue recognition on sales arrangements and from transactions with significant service and support components, which may span several quarters;
- the timing of completion of our customers' projects;
- the length of each customer product upgrade cycle and the volume of purchases during the cycle;
- competitive market conditions, including pricing actions by our competitors;
- the level and mix of our domestic and international revenue;
- new product introductions by our competitors or by us;
- changes in domestic and international regulatory environments affecting our business;
- the evaluation of new services, new standards and system architectures by our customers;
- the cost and timely availability to us of components, subassemblies and modules;
- the mix of our customer base, by industry and size, and sales channels;
- changes in our operating and extraordinary expenses;
- the timing of acquisitions and dispositions by us and the financial impact of such transactions;
- impairment of our goodwill and intangibles;
- the impact of litigation, such as related litigation expenses and settlement costs;
- write-downs of inventory and investments;
- whether the research and development tax is renewed for 2015 and beyond;
- changes in our effective federal tax rate, including as a result of changes in our valuation allowance against our deferred tax assets, and changes in our effective state tax rates, including as a result of apportionment;
- changes to tax rules related to the deferral of foreign earnings and compliance with foreign tax rules;
- the impact of applicable accounting guidance on accounting for uncertainty in income taxes that requires us to establish reserves for uncertain tax positions and accrue potential tax penalties and interest; and
- the impact of applicable accounting guidance on business combinations that requires us to record charges for certain acquisition related costs and expenses and generally to expense restructuring costs associated with a business combination subsequent to the acquisition date.

The timing of deployment of our products by our customers can be subject to a number of other risks, including the availability of skilled engineering and technical personnel, the availability of third party equipment and services, our customers' ability to negotiate and enter into rights agreements with video content owners that provide the customers



with the right to deliver certain video content, and our customers' need for local franchise and licensing approvals.

We often recognize a substantial portion of our quarterly revenue in the last month of the quarter. We establish our expenditure levels for product development and other operating expenses based on projected revenue levels for a specified period, and expenses are relatively fixed in the short term. Accordingly, even small variations in the timing of revenue, particularly from relatively large individual transactions, can cause significant fluctuations in operating results in a particular quarter.

As a result of these factors and other factors, our operating results in one or more future periods may fail to meet or exceed the expectations of securities analysts or investors. In that event, the trading price of our common stock would likely decline.

Table of Contents

Fluctuations in our future effective tax rates could affect our future operating results, financial condition and cash flows.

We are required to periodically review our deferred tax assets and determine whether, based on available evidence, a valuation allowance is necessary. The realization of our deferred tax assets, which are predominantly in the United States, is dependent upon the generation of sufficient U.S. and foreign taxable income in the future to offset these assets. Based on our evaluation, a history of operating losses in recent years has led to uncertainty with respect to our ability to realize certain of our net deferred tax assets, and as a result we recorded a net increase in valuation allowance of \$29.0 million in 2014 against U.S. net deferred tax assets.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. In the event we determine that it is appropriate to create a reserve or increase an existing reserve for any such potential liabilities, the amount of the additional reserve is charged as an expense in the period in which it is determined. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate tax assessment for the applicable period, a further charge to expense in the period such short fall is determined would result. Either such charge to expense could have a material and adverse effect on our operating results for the applicable period. In addition, recent statements from the Internal Revenue Service have indicated their intent to seek greater disclosure by companies of their reserves for uncertain tax positions.

In July 2015, we were notified by the U.S. Internal Revenue Service that our 2012 U.S. corporate income tax return had been selected for audit, which commenced in August 2015. We were also notified in August 2015 by the County of Santa Clara, California, of a new property tax audit for the 2012 through 2015 tax years. We are in the process of appealing a \$1.6 million assessment by the Santa Clara County for underpayment of property tax and associated interest from a previous audit cycle, covering the 2007 through 2011 tax years. In addition, one of our subsidiaries is under audit for the 2012 and 2013 tax years, which commenced in the first quarter of 2015, by the Israel tax authority. If, upon the conclusion of these audits, the ultimate determination of taxes owed in the United States or Israel is for an amount in excess of the tax provision we recorded in the applicable period, our overall tax expense, effective tax rate, operating results and cash flow could be materially and adversely impacted in the period of adjustment.

We continue to be in the process of expanding our international operations and staffing to better support our expansion into international markets. This expansion involves the implementation of an international structure that includes, among other things, an international support center in Europe, a research and development cost sharing arrangement, and certain licenses and other contractual arrangements between us and our wholly-owned domestic and foreign subsidiaries. As a result of these changes, we anticipate that our consolidated pre-tax income will be subject to foreign tax at relatively lower tax rates when compared to the U.S. federal statutory tax rate and, as a consequence, our effective income tax rate is expected to be lower than the U.S. federal statutory rate.

Our future effective income tax rates could be adversely affected if tax authorities challenge our international tax structure or if the relative mix of U.S. and international income changes for any reason. Accordingly, there can be no assurance that our income tax rate will be less than the U.S. federal statutory rate in future periods.

We or our customers may face intellectual property infringement claims from third parties.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, leading companies in the telecommunications industry have extensive patent portfolios. Also, patent infringement claims and litigation by entities that purchase or

control patents, but do not produce goods or services covered by the claims of such patents (so-called “non-practicing entities” or “NPEs”), have increased rapidly over the last decade or so. From time to time, third parties, including NPEs, have asserted, and may assert in the future, patent, copyright, trademark and other intellectual property rights against us or our customers. For example, in October 2011, Avid Technology, Inc. filed a complaint against us in the United States District Court for the District of Delaware alleging that our MediaGrid product infringes two patents held by Avid. In February 2014, a jury determined that we had not infringed on either of these patents. Avid has filed an appeal with respect to the jury’s verdict and the appeal has been docketed with the Federal Circuit. Although we have been able to successfully defend ourselves against the allegations by Avid to date, we may in the future be subject to additional allegations of infringement. Our suppliers and their customers, including us, may have similar claims asserted against them. A number of third parties, including companies with greater financial and other resources than us, have asserted patent rights to technologies that are important to us.

## Table of Contents

Any intellectual property litigation, regardless of its outcome, could result in substantial expense and significant diversion of the efforts of our management and technical personnel. An adverse determination in any such proceeding could subject us to significant liabilities and temporary or permanent injunctions and require us to seek licenses from third parties or pay royalties that may be substantial. Furthermore, necessary licenses may not be available on terms satisfactory to us, or at all. An unfavorable outcome on any such litigation matter could require that we pay substantial damages, could require that we pay ongoing royalty payments, or could prohibit us from selling certain of our products. Any such outcome could have a material and adverse effect on our business, operating results, financial condition and cash flows.

Our suppliers and customers may have intellectual property claims relating to our products asserted against them. We have agreed to indemnify some of our suppliers and most of our customers for patent infringement relating to our products. The scope of this indemnity varies, but, in some instances, includes indemnification for damages and expenses (including reasonable attorney's fees) incurred by the supplier or customer in connection with such claims. If a supplier or a customer seeks to enforce a claim for indemnification against us, we could incur significant costs defending such claim, the underlying claim or both. An adverse determination in either such proceeding could subject us to significant liabilities and have a material and adverse effect on our operating results, cash flows and financial condition.

We may be the subject of litigation which, if adversely determined, could harm our business and operating results.

We may be subject to claims arising in the normal course of business. The costs of defending any litigation, whether in cash expenses or in management time, could materially and adversely affect our business, operating results, financial condition and cash flows. An unfavorable outcome on any litigation matter could require that we pay substantial damages, or, in connection with any intellectual property infringement claims, could require that we pay ongoing royalty payments or prohibit us from selling certain of our products. In addition, we may decide to settle any litigation, which could cause us to incur significant settlement costs. A settlement or an unfavorable outcome on any litigation matter could have a material and adverse effect on our business, operating results, financial condition and cash flows.

We have made, and may continue to make, acquisitions, and any acquisition could disrupt our operations, cause dilution to our stockholders and materially and adversely affect our business, operating results, cash flows and financial condition.

As part of our business strategy, from time to time we have acquired, and we may continue to acquire, businesses, technologies, assets and product lines that we believe complement or expand our existing business. Acquisitions involve numerous risks, including the following:

- unanticipated costs or delays associated with an acquisition;
- difficulties in the assimilation and integration of acquired operations, technologies and/or products;
- potential disruption of our business and the diversion of management's attention from the regular operations of the business during the acquisition process;
- the challenges of managing a larger and more geographically widespread operation and product portfolio after the closing of the acquisition;
- potential adverse effects on new and existing business relationships with suppliers, contract manufacturers, resellers, partners and customers;

- risks associated with entering markets in which we may have no or limited prior experience;
- the potential loss of key employees of acquired businesses and our own business as a result of integration;
- difficulties in bringing acquired products and businesses into compliance with applicable legal requirements in jurisdictions in which we operate and sell products;
- impact of known potential liabilities or unknown liabilities, including litigation and infringement claims, associated with companies we acquire;
- substantial charges for acquisition costs or for the amortization of certain purchased intangible assets, deferred stock compensation or similar items;

Table of Contents

- substantial impairments to goodwill or intangible assets in the event that an acquisition proves to be less valuable than the price we paid for it;
- delays in realizing, or failure to realize, the anticipated benefits of an acquisition; and
- the possibility that any acquisition may be viewed negatively by our customers or investors or the financial markets.

Competition within our industry for acquisitions of businesses, technologies, assets and product lines has been, and is likely to continue to be, intense. As such, even if we are able to identify an acquisition that we would like to consummate, we may not be able to complete the acquisition on commercially reasonable terms or because the target chooses to be acquired by another company. Furthermore, in the event that we are able to identify and consummate any future acquisitions, we may, in each of those acquisitions:

- issue equity securities which would dilute current stockholders' percentage ownership;
- incur substantial debt to finance the acquisition or assume substantial debt in the acquisition;
- incur significant acquisition-related expenses;
- assume substantial liabilities, contingent or otherwise; or
- expend significant cash.

These financing activities or expenditures could materially and adversely affect our operating results, cash flows and financial condition or the price of our common stock. Alternatively, due to difficulties in the capital or credit markets at the time, we may be unable to secure capital necessary to complete an acquisition on reasonable terms, or at all. Moreover, even if we were to obtain benefits from acquisitions in the form of increased revenue and earnings per share, there may be a delay between the time the expenses associated with an acquisition are incurred and the time we recognize such benefits.

As of October 2, 2015, we had approximately \$198 million of goodwill recorded on our balance sheet associated with prior acquisitions. In the event we determine that our goodwill is impaired, we would be required to write down all or a portion of such goodwill, which could result in a material non-cash charge to our results of operations in the period in which such write-down occurs.

If we are unable to successfully address one or more of these risks, our business, operating results, financial condition and cash flows could be materially and adversely affected.

We may sell one or more of our product lines, from time to time, as a result of our evaluation of our products and markets, and any such divestiture could adversely affect our continuing business and our expenses, revenues, results of operation, cash flows and financial position.

We periodically evaluate our various product lines and may, as a result, consider the divestiture of one or more of those product lines. For example, in February 2013, we entered into an Asset Purchase Agreement with Aurora Networks, Inc. pursuant to which we agreed to sell our cable access HFC Business for \$46 million in cash. Any such divestiture could adversely affect our continuing business and expenses, revenues, results of operations, cash flows and financial position.

Divestitures of product lines have inherent risks, including the expense of selling the product line, the possibility that any anticipated sale will not occur, delays in closing any sale, the risk of lower-than-expected proceeds from the sale of the divested business, unexpected costs associated with the separation of the business to be sold from the seller's information technology and other operating systems, and potential post-closing claims for indemnification or breach of transition services obligations of the seller. Expected cost savings, which are offset by revenue losses from divested businesses, may also be difficult to achieve or maximize due to the seller's fixed cost structure, and a seller may experience varying success in reducing fixed costs or transferring liabilities previously associated with the divested business.

Our operating results could be adversely affected by natural disasters affecting the Company or impacting our third-party manufacturers, suppliers, resellers or customers.

Our corporate headquarters is located in California, which is prone to earthquakes. We have employees, consultants and contractors located in regions and countries around the world. In the event that any of our business, sales or research and

Table of Contents

development centers or offices in the U.S. or internationally are adversely affected by an earthquake or by any other natural disaster, we may sustain damage to our operations and properties, which could cause a sustained interruption or loss of affected operations, and cause us to suffer significant financial losses.

We rely on third-party contract manufacturers for the production of our products. Any significant disruption in the business or operations of such manufacturers or of their or our suppliers could adversely impact our business. Our principal contract manufacturers and several of their and our suppliers and our resellers have operations in locations that are subject to natural disasters, such as severe weather, tsunamis, floods and earthquakes, which could disrupt their operations and, in turn, our operations.

In addition, if there is a natural disaster in any of the locations in which our significant customers are located, we face the risk that our customers may incur losses or sustained business interruption, or both, which may materially impair their ability to continue their purchase of products from us. Accordingly, natural disaster in one of the geographies in which we, or our third-party manufacturers, their or our suppliers or our customers, operate could have a material and adverse effect on our business, operating results, cash flows and financial condition.

In order to manage our growth, we must be successful in addressing management succession issues and attracting and retaining qualified personnel.

Our future success will depend, to a significant extent, on the ability of our management to operate effectively, both individually and as a group. We must successfully manage transition and replacement issues that may result from the departure or retirement of members of our executive management. Recently, we announced the resignation of our Chief Financial Officer and appointment of her successor as well as the resignation of our senior vice president, worldwide sales, and related changes to our board of directors and the transition of departed executives' roles and responsibilities to new and existing members of the senior management team. If the new members of executive management do not successfully transition into their new positions, it could negatively impact our business and potentially prevent us from implementing a successful business plan in a timely manner. From time to time, there may be additional changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. We cannot provide assurances that changes of management personnel in the future would not cause disruption to operations or customer relationships or a decline in our operating results.

We are also dependent on our ability to retain and motivate our existing highly qualified personnel, in addition to attracting new highly qualified personnel. Competition for qualified management, technical and other personnel is often intense, and we may not be successful in attracting and retaining such personnel. Competitors and others have in the past attempted, and are likely in the future to attempt, to recruit our employees. While our employees are required to sign standard agreements concerning confidentiality and ownership of inventions, we generally do not have employment contracts or non-competition agreements with any of our personnel. The loss of the services of any of our key personnel, the inability to attract or retain highly qualified personnel in the future or delays in hiring such personnel, particularly senior management and engineers and other technical personnel, could negatively affect our business and operating results.

We could be negatively affected as a result of a future proxy contest and the actions of activist stockholders.

If a proxy contest with respect to election of our directors is initiated in the future, or if other activist stockholder activities occur, our business could be adversely affected because:

- responding to a proxy contest and other actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees;



- perceived uncertainties as to our future direction caused by activist activities may result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners; and
- if individuals are elected to our Board of Directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plans.

Our failure to adequately protect our proprietary rights and data may adversely affect us.

At October 2, 2015, we held 57 issued U.S. patents and 35 issued foreign patents, and had 26 patent applications pending. Although we attempt to protect our intellectual property rights through patents, trademarks, copyrights, licensing arrangements, maintaining certain technology as trade secrets and other measures, we can give no assurances that any patent, trademark,

Table of Contents

copyright or other intellectual property rights owned by us will not be invalidated, circumvented or challenged, that such intellectual property rights will provide competitive advantages to us, or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all. We can give no assurances that others will not develop technologies that are similar or superior to our technologies, duplicate our technologies or design around the patents that we own. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries in which we do business or may do business in the future.

We generally enter into confidentiality or license agreements with our employees, consultants, and vendors and our customers, as needed, and generally limit access to, and distribution of, our proprietary information. Nevertheless, we cannot provide assurances that the steps taken by us will prevent misappropriation of our technology. In addition, we have taken in the past, and may take in the future, legal action to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of management time and other resources, and could materially and adversely affect our business, operating results, financial condition and cash flows.

Recently reported hacking attacks on government and commercial computer systems, particularly attacks sponsored by foreign governments or enterprises, raise the risks that such an attack may compromise, in a material respect, one or more of our computer systems and permit hackers access to our proprietary information and data. If such an attack does, in fact, allow access to or theft of our proprietary information or data, our business, operating results, financial condition and cash flows could be materially and adversely affected.

Our products include third-party technology and intellectual property, and our inability to acquire new technologies or use third-party technology in the future could harm our business.

In order to successfully develop and market certain of our planned products, we may be required to enter into technology development or licensing agreements with third parties. Although companies with technology useful to us are often willing to enter into technology development or licensing agreements with respect to such technology, we cannot provide assurances that such agreements may be negotiated on commercially reasonable terms, or at all. The failure to enter, or a delay in entering, into such technology development or licensing agreements, when necessary or desirable, could limit our ability to develop and market new products and could materially and adversely affect our business.

We incorporate certain third-party technologies, including software programs, into our products, and, as noted, intend to utilize additional third-party technologies in the future. In addition, the technologies that we license may not operate properly or as specified, and we may not be able to secure alternatives in a timely manner, either of which could harm our business. We could face delays in product releases until alternative technology can be identified, licensed or developed, and integrated into our products, if we are able to do so at all. These delays, or a failure to secure or develop adequate technology, could materially and adversely affect our business, operating results, financial condition and cash flows.

Our use of open source software in some of our products may expose us to certain risks.

Some of our products contain software modules licensed for use from third-party authors under open source licenses. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain of the open source

licenses, be required to release the source code of our proprietary software to the public. This could allow our competitors to create similar products with lower development effort and in less time and ultimately could result in a loss of product sales for us.

Although we monitor our use of open source closely, it is possible our past, present or future use of open source has triggered or may trigger the foregoing requirements. Furthermore, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could materially and adversely affect our operating results, financial condition and cash flows.

Table of Contents

We cannot assure you that our stock repurchase program will result in repurchases of our common stock or enhance long term stockholder value, and repurchases, if any, could affect our stock price and increase its volatility and will diminish our cash reserves.

In April 2013, our Board of Directors approved a modified “Dutch Auction” tender offer to repurchase up to \$100 million of shares of our common stock. The tender offer expired on May 24, 2013, and resulted in our repurchasing approximately 12 million shares of our common stock, at \$6.25 per share, for an aggregate purchase price of approximately \$75 million.

Following the tender offer, we resumed purchases under our stock repurchase program. Under the program, we are authorized to repurchase up to \$300 million of our common stock in open market transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. As of October 2, 2015, we had purchased an aggregate of \$251 million of our common stock under this program, including under the tender offer. The timing and actual number of shares repurchased, if any, will depend on a variety of factors, including the price and availability of our shares, trading volume, general market conditions and projected cash positions. The program was suspended prior to the announcement of the tender offer, and may be suspended or discontinued at any time in the future without prior notice.

Repurchases pursuant to our tender offer and our stock repurchase program could affect our stock price and increase its volatility and will reduce the market liquidity for our stock. Additionally, these repurchases will diminish our cash reserves, which could impact our ability to pursue possible future strategic opportunities and acquisitions and would result in lower overall returns on our cash balances. There can be no assurance that any stock repurchases will, in fact, occur, or, if they occur, that they will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our tender offer and our stock repurchase program are intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the effectiveness of these repurchases.

We are subject to import and export controls that could subject us to liability or impair our ability to compete in international markets.

Our products are subject to U.S. export controls, and may be exported outside the U.S. only with the required level of export license or through an export license exception, in most cases because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain technology and have enacted laws that could limit our ability to distribute our products, or could limit our customers’ ability to implement our products, in those countries. Changes in our products or changes in export and import regulations may delay the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential international customers.

In addition, we may be subject to customs duties that could have a significant adverse impact on our operating results or, if we are able to pass on the related costs in any particular situation, would increase the cost of the related product to our customers. As a result, the future imposition of significant increases in the level of customs duties or the creation of import quotas on our products in Europe or in other jurisdictions, or any of the limitations on international sales described above, could have a material adverse effect on our business, operating results, financial condition and cash flows. Further, some of our customers in Europe have been, or are being, audited by local governmental authorities regarding the tariff classifications used for importation of our products. Import duties and tariffs vary by

country and a different tariff classification for any of our products may result in higher duties or tariffs, which could have an adverse impact on our operating results and potentially increase the cost of the related products to our customers.

We may need additional capital in the future and may not be able to secure adequate funds on terms acceptable to us.

We have been engaged in the design, manufacture and sale of a variety of video products and system solutions since inception, which has required, and will continue to require, significant research and development expenditures.

We believe that our existing cash and short-term investments of approximately \$88 million at October 2, 2015, even as it may be reduced through possible future repurchases of our common stock under the stock repurchase program discussed above, will satisfy our cash requirements for at least the next 12 months. However, we may need to raise additional funds to take advantage of strategic opportunities, satisfy our other cash requirements from time to time, or strengthen our financial position. Our ability to raise funds may be adversely affected by a number of factors, including factors beyond our control, such as weakness in the economic conditions in markets in which we sell our products and continued uncertainty in financial, capital and c

Table of Contents

redit markets. There can be no assurance that equity or debt financing will be available to us on reasonable terms, if at all, when and if it is needed.

We may raise additional financing through public or private equity offerings, debt financings, or corporate partnership or licensing arrangements. To the extent we raise additional capital by issuing equity securities or convertible debt, our stockholders may experience dilution. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or products, or grant licenses on terms that are not favorable to us. To the extent we raise capital through debt financing arrangements, we may be required to pledge assets or enter into covenants that could restrict our operations or our ability to incur further indebtedness and the interest on such debt may adversely affect our operating results.

If adequate capital is not available, or is not available on reasonable terms, when needed, we may not be able to take advantage of acquisition or other market opportunities, to timely develop new products, or to otherwise respond to competitive pressures.

Our business and industry are subject to various laws and regulations that could adversely affect our business, operating results, cash flows and financial condition.

Our business and industry are regulated under various federal, state, local and international laws. For example, we are subject to environmental regulations such as the European Union’s Waste Electrical and Electronic Equipment (WEEE) and Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) directives and similar legislation enacted in other jurisdictions worldwide. Our failure to comply with these laws could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in such regions and countries. We expect that our operations will be affected by other new environmental laws and regulations on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws and regulations, they would likely result in additional costs, and could require that we redesign or change how we manufacture our products, any of which could have a material and adverse effect on our operating results, financial condition and cash flows.

We are subject to the Sarbanes-Oxley Act of 2002 which, among other things, requires an annual review and evaluation of our internal control over financial reporting. If we conclude in future periods that our internal control over financial reporting is not effective or if our independent registered public accounting firm is unable to provide an unqualified attestation as of future year-ends, we may incur substantial additional costs in an effort to correct such problems, and investors may lose confidence in our financial statements, and our stock price may decrease in the short term, until we correct such problems, and perhaps in the long term, as well.

We are subject to new requirements under the Dodd-Frank Act of 2010 that will require us to conduct research, disclose, and report whether or not our products contain certain conflict minerals sourced from the Democratic Republic of Congo or its surrounding countries. The implementation of these new requirements could adversely affect the sourcing, availability, and pricing of the materials used in the manufacture of components used in our products. In addition, we may incur certain additional costs to comply with the disclosure requirements, including costs related to conducting diligence procedures to determine the sources of conflict minerals that may be used or necessary to the production of our products and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities. It is also possible that we may face reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free and/or we are unable to alter our products, processes or sources of supply to avoid such materials.

Changes in telecommunications legislation and regulations in the U.S. and other countries could affect our sales and the revenue we are able to derive from our products. In particular, “net neutrality” rules proposed by the U.S. Federal

Communications Commission (FCC) aimed at regulating Internet service as a Title II telecommunications service, or regulations dealing with access by competitors to the networks of incumbent operators, could slow or stop infrastructure and services investments or expansion by service providers. Increased regulation of our customers' pricing or service offerings could limit their investments and, consequently, revenue from our products. The impact of new or revised legislation or regulations could have a material adverse effect on our business, operating results, financial condition and cash flows.

Some anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

We have provisions in our certificate of incorporation and bylaws that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our Board of Directors. These include provisions:

Table of Contents

- authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call, and bring business before, special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board of Directors;
- controlling the procedures for conducting and scheduling of Board of Directors and stockholder meetings; and
- providing the Board of Directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

These provisions could delay hostile takeovers, changes in control of the Company or changes in our management. As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our common stock price may be extremely volatile, and the value of an investment in our stock may decline.

Our common stock price has been highly volatile. We expect that this volatility will continue in the future due to factors such as:

- general market and economic conditions;
- actual or anticipated variations in operating results;
- increases or decreases in the general stock market or to the stock prices of technology companies;
- announcements of technological innovations, new products or new services by us or by our competitors or customers;
- changes in financial estimates or recommendations by stock market analysts regarding us or our competitors;
- announcements by us or our competitors of significant acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;
- announcements by our customers regarding end user market conditions and the status of existing and future infrastructure network deployments;
- the repurchase of over 30% of our outstanding shares since 2012 pursuant to our ongoing stock repurchase program and the tender offer we completed in 2013, as well as any future repurchases under our stock repurchase program;
- additions or departures of key personnel; and



- future equity or debt offerings or our announcements of these offerings.

In addition, in recent years, the stock market in general, and the NASDAQ Stock Market and the securities of technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations have in the past, and may in the future, materially and adversely affect our stock price, regardless of our operating results. In these circumstances, investors may be unable to sell their shares of our common stock at or above their purchase price over the short term, or at all.

Table of Contents

Our stock price may decline if additional shares are sold in the market or if analysts drop coverage of or downgrade our stock.

Future sales of substantial amounts of shares of our common stock by our existing stockholders in the public market, or the perception that these sales could occur, may cause the market price of our common stock to decline. In addition, we issue additional shares upon exercise of stock options, including under our Employee Stock Purchase Plan, and in connection with grants of RSUs on an ongoing basis. Increased sales of our common stock in the market after exercise of outstanding stock options or grants of RSUs could exert downward pressure on our stock price. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem appropriate.

The trading market for our common stock relies in part on the availability of research and reports that third-party industry or securities analysts publish about us. If one or more of the analysts who do cover us downgrade our stock, our stock price may decline. If one or more of these analysts cease coverage of us, we could lose visibility in the market, which in turn could cause the liquidity of our stock and our stock price to decline.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On April 24, 2012, our Board of Directors approved a stock repurchase program that provided for the repurchase of up to \$25 million of our outstanding common stock during the term of the program. In 2013, our Board of Directors approved a \$195 million increase in the program, including a \$75 million increase on January 28, 2013, a \$35 million increase to the program upon the closing of a sale of our HFC business on February 19, 2013 and an additional \$85 million increase to the program on July 16, 2013. On May 14, 2014, our Board of Directors approved an additional \$80 million increase to the program, resulting in an aggregate authorized purchase of \$300 million under the program and the repurchase period was extended through the end of 2016.

Under the program, we are authorized to repurchase shares of common stock in open market transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. The timing and actual number of shares repurchased, if any, will depend on a variety of factors, including the price and availability of our shares, trading volume and general market conditions. The program may be suspended or discontinued at any time without prior notice.

As of October 2, 2015, we had purchased 40.2 million shares of common stock under this program at a weighted average price of \$6.25 per share for an aggregate purchase price of \$252.3 million, including \$1.0 million of expenses. The remaining authorized amount for stock repurchases under this program was \$48.6 million as of October 2, 2015. The table below sets forth the stock repurchase activity for the quarter ended October 2, 2015 (in thousands, except per share amounts):

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan or Program
July 4, 2015 - July 31, 2015	396	\$6.75	396	\$ 53,812
August 1, 2015 - August 28, 2015	400	\$5.86	400	\$ 51,467
August 29, 2015 - October 2, 2015	480	\$5.88	480	\$ 48,647
	1,276		1,276	

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Index
31.1 <sup>(1)</sup>	Section 302 Certification of Principal Executive Officer
31.2 <sup>(1)</sup>	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer
32.2	Section 906 Certification of Principal Financial Officer
101	The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2015, formatted in Extensible Business Reporting Language (XBRL) includes:  (i) Condensed Consolidated Balance Sheets at October 2, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended October 2, 2015 and September 26, 2014, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended October 2, 2015 and September 26, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended October 2, 2015 and September 26, 2014, and (v) Notes to Condensed Consolidated Financial Statements.

(1) Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARMONIC INC.

By:           /s/ Harold Covert  
              Harold Covert  
              Chief Financial Officer  
              (Principal Financial and Accounting Officer)  
              Date: November 6, 2015

60