HARMONIC INC
Form 10-K
March 02, 2015
Table of Contents

2014 Annual Report

Table of Contents

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

Form 10-K

(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2014

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-25826

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

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

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

Securities registered pursuant to section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.001 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ¨ No ý

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 ý 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 ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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	ý
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 ý

Based on the closing sale price of the Common Stock on the NASDAQ Global Select Market on June 27, 2014, the aggregate market value of the voting Common Stock held by non-affiliates of the Registrant was approximately $513,495,000. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the Registrant’s Common Stock, $.001 par value, was 88,635,821 on February 12, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant’s 2015 Annual Meeting of Stockholders (which will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2014) are incorporated by reference in Part III of this Annual Report on Form 10-K.

Table of Contents

HARMONIC INC.
FORM 10-K
TABLE OF CONTENTS

Table of Contents

Forward Looking Statements

Some of the statements contained in this Annual Report on Form 10-K are forward-looking statements that involve risk and uncertainties. The statements contained in this Annual Report on Form 10-K 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," "potential," or "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, 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 13 in this Annual Report on Form 10-K. All forward-looking statements included in this Annual Report on Form 10-K are based on information available to us on the date thereof, and we assume no obligation to update any such forward-looking statements. The terms "Harmonic," the "Company," "we," "us," "its," and "our", as used in this Annual Report on Form 10-K, refer to Harmonic Inc. and its subsidiaries and its predecessors as a combined entity, except where the context requires otherwise.

Table of Contents

PART I

Item 1. BUSINESS

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,” and 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.

Across our two business segments, we derived approximately 57% of our revenue from the Americas in 2014. The Europe, Middle East and Africa (EMEA) and Asia Pacific (APAC) regions accounted for the remaining 25% and 18% of our 2014 revenue, respectively.

Harmonic was initially incorporated in California in June 1988, and was reincorporated in Delaware in May 1995. Our principal executive offices are located at 4300 North First Street, San Jose, California 95134. Our telephone number is (408) 542-2500. Our Internet website is http://www.harmonicinc.com. Other than the information expressly set forth in this Annual Report on Form 10-K, the information contained or referred to on our web site is not part of this report.

INDUSTRY OVERVIEW

Demand for Video Services Anytime, Anywhere

The delivery of television programming and Internet-based services to consumers continues to rapidly converge. Consumers increasingly seek a more personalized and dynamic video experience that can be delivered at any time to any location to a variety of devices, ranging from high-definition (HD) and ultra-high-definition (Ultra HD) televisions and Internet-enabled “smart” televisions, to traditional desktop and laptop computers, to mobile platforms such as smart phones and tablet computers. In this multiscreen video environment, video programming and content needs to be transformed into multiple formats, bit rates and resolutions for display on a broad range of devices.

Consumers have grown accustomed to watching video programming and content at their convenience rather than on fixed timeframes scheduled by service providers. “Time-shifting” technologies such as digital video recorders (DVRs) and video-on-demand (VOD) services are enabling this flexibility, and the introduction of network DVRs by some service providers has eliminated the need for local storage, allowing a subscriber to store programming on the service provider’s servers for future playback at any time, on any device.

Consumers are also accustomed to video download and streaming services from new media companies such as Netflix, Hulu, Google (YouTube), Amazon (Amazon Instant Video) and Apple (iTunes). These and other similar services aggregate third-party and original content and stream video “over-the-top” (OTT) to any Internet-connected device utilizing Internet service providers’ networks at no incremental infrastructure cost to the consumer. In response, service providers as well as broadcast and media companies are providing more of their own streaming video services.

Demand for High Quality Video

Consumer demand for high quality video anytime, anywhere and on any device requires ever-increasing bandwidth capacity in service providers’ networks, as well as technology that maximizes network bandwidth efficiency. With the advent of Ultra HD televisions and OTT services increasingly being rendered in “4K” high resolution and consuming approximately four times the bandwidth of traditional MPEG-4/AVC (H.264) HD channels, we believe next generation compression technologies, such as High Efficiency Video Compression (HEVC), will continue to gain industry traction. HEVC offers approximately 50% improved bandwidth efficiency and improved picture quality when compared to the MPEG-4 compression standard more commonly used to transport video signals today.

Service Provider Trends

Service providers are competing intensely to offer higher quality video signals in HD, including evolving initiatives to deliver video in 4K Ultra HD resolution. Also, in response to the growing success of new media OTT companies, in addition to the time-shifting technologies described above, service providers are broadly expanding their video streaming offerings to customers, for viewing on any device. Increasingly, these services are also featuring content in the bandwidth intensive, high

4

Table of Contents

resolution 4K standard in order to provide consumers with higher value, differentiated video services. Service providers are developing and expanding their content delivery and Internet Protocol (IP) networks, and increasing the capacity and efficiency of their networks with investments in various delivery infrastructure technologies to, among other things, maximize video quality, minimize bandwidth utilization and enable new network capacity. We believe that the delivery of video over IP will continue to change traditional video viewing habits and distribution methods and may alter the traditional advertising and subscription business models of major service providers.

Service providers continue to consolidate to achieve greater economies of scale and subscriber concentration, and to compete more effectively, especially against the growing disruptive threat of OTT offerings. In addition, service providers continue to enhance and differentiate their offerings by creating and delivering their own branded content, either through organic in-house development of new content or through acquisitions of existing content brands. For example, Comcast, a cable operator, owns NBC Universal, a broadcast and media company, and Sky Broadcasting, a European satellite service provider, has developed its own channels and content.

Content Provider Trends

An increasing number of content owners and media companies in the U.S. and internationally have launched, or are planning to launch, their own OTT streaming initiatives to reach consumers directly, with OTT streaming of live programming becoming increasingly relevant. These initiatives may be in partnership or competition with service providers.

As service providers deliver more video services to more devices and platforms, they are increasingly requiring content providers to supply content that is properly formatted for each device. As the number and type of devices continue to grow, the lack of consistent video standards means content providers must reformat and package their content in dozens of different formats to enable their content to be viewable across different devices. As a result, some broadcast and media companies are beginning to outsource playout functionality to service providers.

MARKET TRENDS

Cable Market

To address increasing competition, reduce subscriber losses, increase average revenue per user (ARPU) and differentiate themselves, cable operators have embarked on several initiatives to improve their product offerings:

- Continued offerings of bundled digital video, voice and high speed data services;
- Expansion of VOD libraries and on-demand service offerings;
- Refresh of the user experience with upgraded home set-top box solutions and content navigation tools;
- Launches of video delivery over IP to broadband enabled consumer devices;
- Capacity enhancement of high-speed data services;
- Expansion of network capacity to support the growing number of available services, including HDTV in foreign markets; and
- Collaboration with content owners on offering access to on-line content.

To support this rapid expansion of service offerings, cable operators are investing in video processing solutions that can receive, process, and distribute content from a variety of sources to a broad array of consumer devices, video storage equipment, and servers to ingest, store and intelligently distribute content, complemented by cable edge solutions.

Satellite and Telco Markets

Over 100 satellite operators around the world have established digital television services that serve tens of millions of subscribers. These services are capable of providing tens of thousands of channels, including an increasing number of HD channels and the introduction of Ultra HD channels. These linear services will likely continue to expand as operators offer premium packages targeted towards specific consumer groups, with the goal of gaining loyalty and expanding ARPU. In parallel, satellite operators have begun offering the same linear services and VOD options to their customer base via broadband-connected consumer devices such as smart phones, tablets and their own set-top boxes. These services are deployed in conjunction with content delivery networks (CDNs) and are accessible through partnerships, acquisitions or internal investments. To support these new services, satellite operators are upgrading their video infrastructure in order to attain greater bandwidth efficiency and operational optimization in an increasingly complex environment.

5

Table of Contents

Internationally, and specifically in emerging markets, satellite operators continue to enjoy substantial growth in their customer base, driven mainly by rapid economic development, which has resulted in a significantly growing middle class with disposable income. As this growth continues, it is expected that these satellite operators will expand their product offerings to leverage the growing customer base and increase overall revenue.

Over the past several years, telcos around the world have added video services as a competitive response to cable and satellite operators and as a potential source of revenue growth. As their businesses have grown and matured, they have also expanded their offerings in an effort to successfully compete in the video arena, including high quality HD content, larger VOD libraries, time-shifting television services, bundled voice, data and video packages, multiscreen video offerings to a broad range of devices, and branded mobile specific services. The last of these offerings, mobile wireless services, is a key competitive advantage for telcos today, as it provides a clear differentiator in anytime, anywhere service offerings for consumers looking to view content on the move. In developed markets, telcos are also making significant infrastructure investments, including VDSL2 Vectoring with plans to integrate this technology with the new G.Fast DSL standard, along with ongoing deployments of fiber-to-the-premises (FTTP) to enable very high-speed broadband connections for residences and businesses.

Broadcast and Media Markets

Network broadcasters, programmers and content owners transmit live programming of news and sports to their studios for subsequent broadcast, and deliver the same programming and content to service providers for distribution to their subscribers. These broadcasters generally produce their own news and sports highlight content, along with hundreds of channels of network programming that is played-to-air under strict reliability requirements.

In the terrestrial broadcasting market, operators in many countries in EMEA, APAC and South America are now required by regulation to convert from analog to digital transmission in order to free up broadcast spectrum. These broadcasters are faced with requirements of converting analog signals to digital signals prior to transmission over the air, as well as to distribute these new signals across a new terrestrial network. The conversion to digital transmission provides the opportunity to deliver new channels; HD, Ultra HD and 4K services; premium content and interactive services.

Media companies, in order to effectively address consumer demands, are expanding their offerings to support a wide range of live and linear content, and to make content available in higher quality video formats and on-demand. These trends are increasing demand for media servers and video optimized storage equipped to support higher resolution formats, and accelerating demand for functionally collapsed playout systems with integrated media orchestration software. In addition, distribution networks responsible for moving video content to service providers are being upgraded to handle larger volumes of digital content in more efficient formats and with greater flexibility.

New Media and OTT Market

OTT video streaming already accounts for well over half of downstream Internet traffic in North America, and new media OTT companies are aggressively pushing into international markets. These companies will continue to require high quality video processing solutions in order to process and distribute large amounts of content from a wide variety of sources to a broad array of consumer devices, and to optimize adaptive bitrate video streaming quality and bandwidth utilization. Also, some OTT companies have begun to develop and introduce original content, and other new media companies are also in the process of developing program channels similar to channels currently available from service providers. We believe these developments may result in increased investments by OTT companies in video production and playout solutions.

Emerging Markets

With a rapidly growing middle class across emerging markets, we believe the Pay-TV business is poised for rapid growth over the coming decade in the Asia Pacific region, South Asia, the Middle East, Africa and Central and South America. We currently derive a meaningful portion of our revenue from countries in emerging markets. Many consumers who are entering the middle class are now able to afford a monthly video service to gain access to their favorite programs and movies. Considering the early stages of economic development in many of these regions, together with very large populations, we believe some of the leading video service providers serving emerging markets will experience high subscriber growth rates and may become worldwide industry leaders. In addition, since the video services currently available to consumers in these markets are generally more basic when compared to services available in more developed markets, we believe subscribers will demand increasingly sophisticated video services over time as consumer consumption trends in these markets track those in more developed markets. As a result, we believe that the infrastructure and technology investments of these service providers and new market entrants are likely to grow significantly for the foreseeable future.

Table of Contents

Further, media companies addressing emerging markets are aggressively investing in the creation of new content, particularly content that is localized and responsive to consumer demands, with the goal of creating strong brands and a growing, loyal customer base. We believe that this growth in content creation will require these media companies to significantly increase their investments in video storage, processing and related technologies.

OUR VIDEO BUSINESS

Overview

We offer a range of products and solutions, as well as next-generation software-based media processing platforms that address the demand and market trends shaping our industry.

In light of more complicated workflows inherent in managing the delivery of greater quantities of content across multiple formats to a growing population of set-top-boxes and consumer electronic devices, we believe the industry is moving toward unified video processing systems. These systems incorporate historically discrete video processing functions in software, enabling significant cost efficiencies across the entire video workplace. Additionally, we believe there is gaining industry momentum towards network function virtualization, whereby core video chain functions are being re-engineered and collapsed to run on the latest Intel processors in order to leverage high-performance and scalable appliance-based hardware, or as software-only virtual instances designed to run on industry standard servers in data center environments.

From production studios to broadcast newsrooms, consumer demand for higher resolution video programming and more viewing options is escalating network touch points and server capacity needed to administer channel production and playout processes, thereby elevating costs and space restrictions. As more content is filmed in 4K and played-to-air on newly created channels supporting higher resolution HD and Ultra HD formats, these constraints are likely to be exacerbated and we believe these issues will create increased demand for functionally-collapsed playout systems with integrated “media orchestration” software. This type of software provides an automated control system that streamlines playout processes, improves video quality, and reduces server overhead by combining historically discrete video chain functions into a unified playout system where content can be ingested, formatted, stored and played-to-air. We believe functionally collapsed video playout infrastructures with media orchestration systems, along with video optimized storage solutions, will enable content providers to produce more channels in higher resolution formats faster and more cost-effectively, and provide content in the widest possible range of formats and at the highest possible video quality.

As a result, service providers and broadcast and media companies are likely to make significant investments in these newly architected systems in the foreseeable future.

Video Products

Video Processing Solutions

Our video processing solutions, which include network management software and application software and hardware products, provide our customers with the ability to acquire a variety of signals from different sources and in different protocols in order to deliver a variety of real-time and stored content to their subscribers for viewing on a broad range of devices.

Broadcast and distribution encoders. Our Electra and Ion high performance encoders compress video, audio and data channels to low bit rates, while maintaining high video quality. Our encoders are available in multiple formats, including standard, HD and Ultra HD formats, using various codecs including the MPEG-2, MPEG-4, HEVC and AVS+ video compression standards, for both televisions and new multiscreen formats targeted at smart phones, tablets and broadband-connected televisions. Our new Electra XVM software product is a completely virtualized media processor designed to run in virtual machine environments on blade servers, and is our first product based on our VOS platform, which is the next-generation software platform we announced in 2014 and are developing to unify the entire media processing chain, from ingest to delivery. Electra XVM supports a broad range of compression standards over constant bit rate (CBR), variable bit rate (VBR) and adaptive bit rate (ABR) encoding schemes, and includes integrated video graphics and branding as well as playout capabilities such as channel origination and linear ad insertion. Our encoding products are primarily used in real-time, linear video applications and to a lesser extent for encoding video content and storage for later delivery as VOD and time-shifted services.

Contribution encoders. Our Ellipse encoders provide broadcasters with video compression solutions for real-time news gathering, live sports coverage and other remote events, and enable our customers to deliver these feeds to their studios for

Table of Contents

further processing. Our latest models encode full-resolution 1080p60 video signals in AVC 4:2:2 10-bit, enabling the transmission of very high quality video, and include an integrated modulator which eliminates the need for a separate satellite uplink device. Broadcasters and other operators also use our contribution encoders for delivery of their programming to their customers, which are typically cable, telco and satellite operators.

Multiscreen transcoders and stream processing. Our ProStream real-time stream processor and transcoder products enable our customers to transcode standard definition (SD) and HD MPEG-2 and MPEG-4 video content for both broadcast and OTT mobile and web applications simultaneously. Our ProStream products also feature high-density, multiple SD or HD inputs and multiscreen output profiles; multiplexing; advanced remultiplexing, scrambling and descrambling; linear ad splicing into video streams; and integrated statmux pools.

Content preparation and delivery for multiscreen applications. Our ProMedia products enable high-quality broadcast, VOD and OTT services on any device, including live streaming, VOD, catch-up TV, start-over TV, and network DVR services through hypertext transfer protocol (HTTP) streaming. Our ProMedia software products enable file-based and real-time transcoding, stream packaging, and multiscreen workflow management. Our ProMedia Origin HTTP streaming video server product ingests transcoded, segmented and encrypted output from our ProMedia software products and enables high-volume live adaptive bitrate streaming and the delivery of time-shifted services.

Decoders and descramblers. Our ProView integrated receivers-decoder (IRD) products allow service providers to acquire content delivered via satellite, IP or terrestrial networks for distribution to their subscribers. These products are also used to decode signals backhauled from live news and sporting events in contribution applications and, more recently, are used by content owners looking to distribute their content in a controlled manner to a large base of video service providers.

Management and control software. Our NMX Digital Service Manager provides service providers with the ability to control and visually monitor their digital video infrastructure at an aggregate level, rather than as just discrete pieces of hardware, and is designed to be integrated into larger network management systems through the use of a simple network management protocol (SNMP). In addition, our Iris advanced video analytics software suite works in tandem with NMX to collect data from our Electra and Ion encoder products in order to provide video quality, global channel availability and source profiling measurements for hundreds of compressed channels. Our DMS video distribution management system provides broadcasters and content providers with software control tools over large numbers of our ProView IRD products, enabling flexible device or group addressability, entitlements and authorization management and over-the-air (OTA) in-band control of CDN elements.

Video Production Platforms and Playout Solutions

Our video production platforms consist of video-optimized storage and content management applications, which provide broadcast and media companies with file-based infrastructure to support video content production activities, such as editing, post-production and finishing. Our video playout solutions, including media orchestration software, are based on scalable video servers used by broadcast and media companies to create and playout television channels.

Video servers. Our Spectrum family of video server and storage products are used by broadcast and media companies to create play-to-air television channels. Our customers typically use these video server products to record incoming content from either live feeds or from tapes, encoding that content in real-time into standard media files that are then stored in the server's file system until the content is needed for playback as part of a scheduled playlist. Clips stored in the server are decoded in real-time and played-to-air according to a playout schedule in a frame-accurate, back-to-back manner to create a seamless television channel. Our servers support both SD and HD programming, as well as many different media formats. Our new Polaris media orchestration software solutions work with our Spectrum products and provide our customers with playout management and control tools for channel-in-a-box and integrated channel playout applications.

Video-optimized storage. Our MediaGrid active storage system is a scale-out, network-attached storage system with a built-in media file system that has been optimized for typical read and write file operations found in media production workflows. Architected as a clustered storage system with a distributed file system, MediaGrid provides highly scalable storage capacity and access bandwidth to support demanding media production applications, such as video editing, content transformation and media library management. In addition, MediaGrid systems are increasingly being employed for VOD, time-shifted television services and OTT adaptive bitrate streaming.

Media Applications. Complementing our server and storage platforms, our Media Application Server (MAS), combined with a suite of integrated applications, provides a basic level of integrated media management and workflow control over content stored across our systems. For more complex media management, our underlying application programming interface, called Media Services Framework, allow both customers and other application developers to build advanced media

Table of Contents

management applications that can automate many media processing and movement tasks, collect and organize content metadata, and provide search and review functionality.

OUR CABLE EDGE BUSINESS

Overview

We believe the market and industry trends highlighted above are similarly creating opportunities for our Cable Edge business.

As consumption of VOD services accelerates, service provider demand for video edge QAMs increases. In addition, as OTT services continue to proliferate, with some content being rendered in 4K Ultra HD, the bit rates of OTT video streams are also increasing, which we believe will drive service provider demand for scalable, modular Cable Modem Termination System (CMTS) downstream ports and associated universal edge QAM capacity. In addition, with heightened competition from non-cable service providers such as AT&T, Verizon, Google Fiber and local municipalities to deliver gigabit data rates, cable operators are aggressively driving enabling broadband access technologies, including the Converged Cable Access Platform (CCAP) architecture. We also believe the cable industry will move rapidly to DOCSIS 3.1, which enables increased bandwidth data transfer over existing broadband infrastructure.

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 centralized CCAP-based systems will significantly reduce cable headend costs and increase operational efficiency, and that the deployment of these systems will be an important step in cable operators' transition to all-IP networks.

In addition to centralized CCAP systems, we believe there is growing interest in complementary distributed CCAP-based solutions, particularly in areas where cable operators and non-cable service providers are extending fiber access networks to denser coax-wired areas, such as office and residential buildings, college campuses and hospitality locations. While centralized CCAP-based systems are installed in service provider headends or hubs, distributed CCAP-based products are installed at the edge of a service provider's distribution network. This distributed access architecture alleviates power and space requirements of centralized systems at headend sites, and we believe will enable service providers to efficiently scale to support data and video growth.

Cable Edge Products

Edge QAM products. Our Narrowcast Services Gateway (NSG) products are fully integrated edge gateway products that integrate routing, multiplexing, scrambling and modulation into a single package for the delivery of narrowcast services to subscribers over cable networks. An NSG is usually supplied with single Gigabit Ethernet inputs or multiple Gigabit Ethernet inputs, allowing the cable operator to use bandwidth efficiently by delivering IP signals from the headend to the edge of the network for subsequent modulation onto a HFC network. Originally developed for VOD applications, the NSG has evolved to support multiple applications, including switched digital video and modular CMTS applications, as well as large-scale VOD deployments.

Centralized CCAP Solution. Our NSG Pro product is based on the current CCAP architecture and provides high-density, universal edge QAM capabilities with easy upgradeability to enable future CMTS capabilities. The CMTS feature, which is currently under development, would make our NSG Pro system fully compliant with current CCAP architecture requirements.

Distributed CCAP Solution. Our newest NSG product, the NSG Exo, is a cost-effective distributed CCAP device which enables the deployment of a Distributed Access Architecture (DAA) utilizing coax networks. The NSG Exo allows service providers to move their radio frequency (RF) delivery requirements out of the headend or hub and deeper into the distribution network, simplifying network design and operation to resolve power and space constraints, provide service flexibility, and lower capital and operational expenses. The NSG Exo includes DOCSIS/EuroDOCSIS/J-DOCSIS CMTS capabilities today, with universal edge QAM capabilities under development.

We believe CCAP-based systems may, over time, replace and make obsolete current cable edge QAM products, as well as current CMTS products, since fully compliant CCAP-based solutions will combine the functionality of these products into one system. Since we historically have not addressed the CMTS market, we believe the NSG Pro and any other CCAP-based products we develop will have an opportunity to be sold into a significantly larger and growing market created by the CCAP standard.

TECHNICAL SUPPORT AND PROFESSIONAL SERVICES

Table of Contents

We provide maintenance and support services to most of our customers under service level agreements that are generally renewed on an annual basis. We also provide consulting, implementation and integration services to our customers worldwide. We draw upon our expertise in broadcast television, communications networking and compression technology to design, integrate and install complete solutions for our customers, including integration with third-party products and services. We offer a broad range of services, including program management, technical design and planning, building and site preparation, integration and equipment installation, end-to-end system testing and comprehensive training.

CUSTOMERS

We sell our products to a variety of cable, satellite and telco, and broadcast and media companies. Set forth below is a representative list of our significant end user and integrator/reseller customers, based, in part, on revenue during 2014.

United States	International
CenturyLink	Acetel Co.
Charter Communications	Arqiva
Comcast Cable	Capella
Cox Communications	Dimension Data Netherlands
DigitalGlue	Huawei Technologies
DirecTV	Kabel Deutschland Vertrieb und Service
EchoStar Holding	OneBand Systems
Heartland Video	OOO Starline
Time Warner Cable	Sky Perfect JSAT
Turner Broadcasting	Virgin Media

Sales to our ten largest customers in 2014, 2013 and 2012 accounted for approximately 35%, 31% and 31% of revenue, respectively. Although we continue to seek to broaden our customer base by penetrating new markets and further expanding internationally, we expect to see continuing industry consolidation and customer concentration. During 2014, 2013 and 2012, revenue from Comcast accounted for 16%, 12% and 11% respectively, of our revenue. 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. In addition, we are involved in most quarters in one or more relatively large individual transactions. A decrease in the number of relatively larger individual transactions in which we are involved in any quarter could adversely affect our operating results for that quarter.

SALES AND MARKETING

In the U.S. and internationally, we sell our products through our own direct sales force, as well as through independent resellers and systems integrators. Our direct sales team is organized geographically and by major customers and markets to support customer requirements. Our principal sales offices outside of the U.S. are located in Europe and Asia, and we have a support center in Switzerland to support our international customers and operations. Our international resellers are generally responsible for importing our products and providing certain installation, technical support and other services to customers in their territory after receiving training from us.

Our direct sales force and resellers are supported by a highly trained technical staff, which includes application engineers who work closely with our customers to develop technical proposals and design systems to optimize system performance and economic benefits for our customers. Our technical support teams provide a customized set of services, as required, for ongoing maintenance, support-on-demand and training for our customers and resellers, both in our facilities and on-site.

Our product management organization develops strategies for product lines and markets and, in conjunction with our sales force, identifies the evolving technical and application needs of customers so that our product development resources can be most effectively and efficiently deployed to meet anticipated product requirements. Our product management organization is also responsible for setting price levels, demand forecasting and general support of the sales force, particularly at major accounts.

Our corporate marketing organization is responsible for building awareness of the Harmonic brand in our markets and driving engagement with our strategies, solutions and products. The group develops all of our corporate messaging and manages all customer and industry communication mechanisms, including advertising, our Web presence, speakers bureau, events and trade shows. The marketing organization also develops our corporate video assets, including 4K/Ultra HD content for displays and demos, and manages product launches and demand generation in conjunction with our sales force. We have many programs in place to heighten industry awareness of our products, including participation in technical conferences, publication of articles in industry journals and exhibitions at trade shows.

MANUFACTURING AND SUPPLIERS

We rely on third party contract manufacturers to assemble our products and the subassemblies and modules for our products. In 2003, we entered into an agreement with Plexus Services Corp. to act as our primary contract manufacturer. Plexus currently provides us with a substantial majority, by dollar amount, of the products we purchase from our contract manufacturers. This agreement has automatic annual renewals, unless prior notice for nonrenewal is given, and has been automatically renewed until October 2015. We do not generally maintain long-term agreements with any of our contract manufacturers.

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. While we expend considerable efforts to qualify additional component sources, consolidation of suppliers in the industry and the small number of viable alternatives have limited the results of these efforts. We do not generally maintain long-term agreements with any of our suppliers.

INTELLECTUAL PROPERTY

As of December 31, 2014, we held 55 issued U.S. patents and 34 issued foreign patents and had 23 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 cannot assure you that any patent, trademark, 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 claims, or the scope of the claims, sought by us, if at all. We cannot assure you that others will not develop technologies that are similar or superior to our technology, duplicate our technology or design around the patents that we own. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in which we do business or may do business in the future.

We generally enter into confidentiality or license agreements with our employees, consultants, vendors and customers as needed, and generally limit access to, and distribution of, our proprietary information. However, no assurances can be given that these actions will prevent misappropriation of our technology. In addition, if necessary, we are prepared to take legal action, in the future, 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. Any such litigation could result in substantial costs and diversion of resources, including management time, and could negatively affect our business, operating results, financial position and cash flows.

In order to successfully develop and market our products, we may be required to enter into technology development or licensing agreements with third parties. Although many companies are often willing to enter into such technology development or licensing agreements, we cannot assure you that such agreements can be negotiated on reasonable terms or at all. The failure to enter into technology development or licensing agreements, when necessary, could limit our ability to develop and market new products and could harm our business.

BACKLOG

We schedule production of our products and solutions based upon our backlog, open contracts, informal commitments from customers and sales projections. Our backlog consists of firm purchase orders by customers for delivery within the next 12 months, as well as deferred revenue that is expected to be recognized within the succeeding 12 months. Our backlog, including deferred revenue at December 31, 2014 was approximately $128.7 million. Delivery schedules on such orders may be deferred or canceled for a number of reasons, including reductions in capital spending by our customers or changes in specific customer requirements. In addition, due to annual capital spending budget cycles at many of our customers, the amount of our backlog at any given time is not necessarily indicative of actual revenues for any succeeding period.

COMPETITION

The markets for video infrastructure systems are extremely competitive and have been characterized by rapid technological change and declining average selling prices. The principal competitive factors in these markets include product

11

Table of Contents

performance, reliability, price, breadth of product offering, sales and distribution capabilities, technical support and service, and relationships with end customers. We believe that we compete favorably in each of these categories.

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 including ATEME, Elemental Technologies, Envivio, 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.

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 was acquired by Ericsson; and Miranda Technologies and Grass Valley were acquired by Belden Inc. Consequently, some of our principal competitors are substantially larger and have greater financial, technical, marketing and other resources than we have.

RESEARCH AND DEVELOPMENT

We have historically devoted a significant amount of our resources to research and development. Research and development expenses in 2014, 2013 and 2012 were approximately \$93.1 million, \$99.9 million and \$102.6 million, respectively. Research and development expenses as a percent of revenue in 2014, 2013 and 2012 were approximately 21.5%, 21.6% and 21.5%, respectively. Our internal research and development activities are conducted primarily in the United States (California, Oregon, New York and New Jersey), Israel and Hong Kong. In addition, a portion of our research and development is conducted through third party partners with engineering resources in Ukraine and in India.

Our research and development program is primarily focused on developing new products and systems, and adding new features and other improvements to existing products and systems. Our development strategy is to identify features, products and systems, in both software and hardware solutions, that are, or are expected to be, needed by our customers. Our current research and development efforts are focused heavily on next-generation video processing solutions, including enhanced video compression, enhanced video quality, and multiscreen solutions. We also devote significant resources to production and playout and distribution solutions. Other research and development efforts are devoted to cable edge solutions for both video and data, particularly the development of products that will be fully compliant with the requirements of the CCAP architecture.

Our success in designing, developing, manufacturing and selling new or enhanced products will depend on a variety of factors, including the identification of market demand for new products, product selection, timely product design and development, product performance, effective manufacturing and assembly processes and sales and marketing. Because of the complexity inherent in such research and development efforts, we cannot assure you that we will successfully develop new products, or that new products developed by us will achieve market acceptance. Our failure to successfully develop and introduce new products would materially and adversely affect our business, operating results, financial condition and cash flows.

EMPLOYEES

As of December 31, 2014, we employed a total of 1,028 people, including 362 in research and development, 203 in sales, 224 in service and support, 63 in operations, 65 in marketing (corporate and product), and 111 in a general and administrative capacity. There were 541 employees in the U.S. and 487 employees in foreign countries located in South America, the Middle East, Europe, Asia, and Canada. We also employ a number of temporary employees and consultants on a contract basis. None of our employees are represented by a labor union with respect to his or her employment with us. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

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;

• 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

Table of Contents

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 including ATEME, Elemental Technologies, Envivio, 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 was acquired by Ericsson; 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.

Table of Contents

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 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

Table of Contents

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.

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;

Table of Contents

• 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.

Revenue derived from customers outside of the U.S. in the fiscal years ended December 31, 2014, 2013 and 2012 represented approximately 52%, 57% and 56% of our revenue, respectively. 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, or 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;

Table of Contents

• 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 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

Table of Contents

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 2015.

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 and our 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 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 position 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 fiscal years ended December 31, 2014, 2013 and 2012 accounted for approximately 35%, 31% and 31% of 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 fiscal years ended December 31, 2014, 2013 and 2012, revenue from Comcast accounted for approximately 16%, 12% and 11% of our revenue, respectively, and further consolidation in the cable industry, such as Comcast's announcement in February 2014 of its intention to acquire Time Warner Cable, 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, value-added 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

Table of Contents

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, principally 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 December 31, 2014, we had 487 employees in our international operations, representing approximately 47% 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, 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 December 31, 2014, we maintained facilities in two locations in Israel with a total of 170 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

Table of Contents

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;

• 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 2014 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;

Table of Contents

• 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.

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 U.S., 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 U.S. 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.

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.

Table of Contents

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.

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 harm our business and materially and adversely affect our operating results 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;

Table of Contents

• 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;

• 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 December 31, 2014, 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 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.

Table of Contents

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 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. 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

Table of Contents

• 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 December 31, 2014, we held 55 issued U.S. patents and 34 issued foreign patents, and had 23 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, 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

Table of Contents

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.

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 December 31, 2014, we had purchased an aggregate of $231 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.

Table of Contents

We believe that our existing cash and short-term investments of approximately $105 million at December 31, 2014, 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 presently unanticipated 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 credit 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.

Table of Contents

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:

• 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.

Table of Contents

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.

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 restricted stock units on an ongoing basis. Increased sales of our common stock in the market after exercise of outstanding stock options or grants of restricted stock units 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.

Available Information

Harmonic makes available free of charge, on the Harmonic web site, the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K (via link to the SEC website), and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after Harmonic files such material with, or furnishes such material to, the Securities and Exchange Commission. The address of the Harmonic web site is http://www.harmonicinc.com. Except as expressly set forth in this Form 10-K, the contents of our web site are not incorporated into, or otherwise to be regarded as part of, this report.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

All of our facilities are leased, including our principal operations and corporate headquarters in San Jose, California. We have research and development centers in the U.S., Israel and Hong Kong. We have sales and service offices primarily in the U.S. and various locations in Europe and Asia. Our leases, which expire at various dates through November 2022, are for an aggregate of approximately 350,000 square feet of space. The San Jose lease has a term of ten years and is for approximately 188,000 square feet of space. The San Jose facility houses our research and development and corporate headquarters functions. We have two business segments: Video and Cable Edge. Because of the interrelation of these segments, a majority of these segments use substantially all of the properties, at least in part, and we retain the flexibility to use each of the properties in whole or in part for each of the segments. We believe that the facilities that we currently occupy are adequate for our current needs and that suitable additional space will be available, as needed, to accommodate the presently foreseeable expansion of our operations.

Item 3. 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. Given the inherent uncertainties of litigation, the ultimate outcome of these matters cannot be predicted at this time.

In October 2011, Avid Technology, Inc. (“Avid”) filed a complaint in the United States District Court for the District of Delaware alleging that Harmonic’s Media Grid product infringes two patents held by Avid. A jury trial on this complaint

Table of Contents

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.

In June 2012, Avid served a subsequent complaint in the United States District Court for the District of Delaware alleging that Harmonic'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. 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.

An unfavorable outcome on any litigation matters could require us to pay substantial damages, or, in connection with any intellectual property infringement claims, could require us to 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 position and cash flows.

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. From time to time, third parties have asserted, and may in the future assert, exclusive patent, copyright, trademark and other intellectual property rights against us or our customers. Such assertions arise in the normal course of our operations. The resolution of any such assertions and claims cannot be predicted with certainty.

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

Table of Contents

PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information of our Common Stock

Our common stock is traded on the NASDAQ Global Select Market under the symbol HLIT, and has been listed on NASDAQ since our initial public offering on May 22, 1995. The following table sets forth, for the periods indicated, the high and low sales price per share of our common stock as reported on the NASDAQ Global Select Market:

	2014		2013	
	Sales Price		Sales Price	
Quarter ended	High	Low	High	Low
First quarter	$7.48	$5.93	$5.93	$4.85
Second quarter	7.75	6.35	6.48	5.42
Third quarter	7.66	5.66	8.04	6.35
Fourth quarter	7.46	5.61	8.25	6.60

Holders

As of February 12, 2015, there were approximately 438 holders of record of our common stock.

Dividend Policy

We have never declared or paid any dividends on our capital stock. At this time, we expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Our line of credit includes covenants prohibiting the payment of cash dividends.

Repurchases of Equity Securities by the Issuer

In April 2012, our Board of Directors (the “Board”) approved a stock repurchase program that provided for the repurchase of up to $25 million of our outstanding common stock. In 2013, the Board approved a $195 million increase in the stock repurchase program, including a $75 million increase in January 2013, a $35 million increase to the program upon the closing of a sale of our HFC business in February 2013 and an additional $85 million increase to the program in July 2013. On May 14, 2014, the Board approved a further $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 purchases are funded from available working capital. The program may be suspended or discontinued at any time without prior notice.

During 2012, we repurchased 5.1 million shares of our common stock at an average price of $4.43 per share for an aggregate purchase price of $22.6 million. During 2013, we repurchased 6.3 million shares of our common stock at an average share price of $6.48 per share for an aggregate purchase price of $40.6 million. In addition, $76.0 million, including $1.0 million of expenses, was spent in our "modified Dutch auction" tender offer, which closed on May 24, 2013. Under the tender offer, we repurchased 12.0 million shares of our common stock at $6.25 per share. During 2014, we repurchased 13.9 million shares of our common stock at an average share price of $6.70 per share for an aggregate purchase price of $93.1 million. As of December 31, 2014, we had repurchased 37.3 million shares of common stock under this program at a weighted average price of $6.21 per share for an aggregate purchase price of $232.3 million, including $1.0 million of expenses. The remaining authorized amount for repurchases under this program was $68.7 million as of December 31, 2014. The excess of cost over par value for the repurchase of our common stock is recorded to additional paid-in-capital.

The following table is a summary of our stock repurchases during the quarter ended December 31, 2014 (in thousands, except per share data):

Table of Contents

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
September 27, 2014 - October 24, 2014	400	$6.43	400	$ 72,802
October 25, 2014 - November 21, 2014	59	$6.78	59	$ 72,400
November 22, 2014 - December 31, 2014	541	$6.93	541	$ 68,654
	1,000	$6.72	1,000	

Stock Performance Graph

Set forth below is a line graph comparing the annual percentage change in the cumulative return to the stockholders of the Company's common stock with the cumulative return of the NASDAQ Telecommunications Index and of the Standard & Poor's (S&P) 500 Index for the period commencing December 31, 2009 and ending on December 31, 2014. The graph assumes that $100 was invested in each of the Company's common stock, the S&P 500 and the NASDAQ Telecommunications Index on December 31, 2009, and assumes the reinvestment of dividends, if any. The comparisons shown in the graph below are based upon historical data. Harmonic cautions that the stock price performance shown in the graph below is not indicative of, nor intended to forecast, the potential future performance of the Company's common stock

	12/09	12/10	12/11	12/12	12/13	12/14
Harmonic Inc.	100.00	135.60	79.75	80.22	116.77	110.92
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
NASDAQ Telecom	100.00	107.95	96.16	100.40	139.11	148.69

The information contained in this Stock Performance Graph section shall not be deemed to be "soliciting material", "filed" or incorporated by reference in previous or future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that Harmonic specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Table of Contents

Item 6. SELECTED FINANCIAL DATA

The selected financial data set forth below as of December 31, 2014 and 2013, and for the fiscal years ended December 31, 2014, 2013 and 2012, are derived from our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. The selected financial data as of December 31, 2012, 2011 and 2010, and for the fiscal years ended December 31, 2011 and 2010 are derived from audited financial statements not included in this Annual Report on Form 10-K. This financial data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K. These historical results are not necessarily indicative of the results to be expected in the future.

On March 5, 2013, we completed the sale of our cable access HFC business to Aurora Networks. As such, the results of operations associated with cable access HFC business are presented as discontinued operations in our Consolidated Statements of Operations for all periods presented.

	Year ended December 31,				
	2014	2013	2012	2011	2010 [5]
	(In thousands, except per share amounts)				
Consolidated Statements of Operations Data					
Net revenue	$433,557	$461,940	$476,871	$490,874	$367,776
Cost of revenue [2][4]	221,209	241,495	256,339	254,058	190,460
Gross profit	212,348	220,445	220,532	236,816	177,316
Operating expenses:					
Research and development	93,061	99,938	102,627	99,314	74,404
Selling, general and administrative	131,322	134,014	127,117	127,077	104,501
Amortization of intangibles	6,775	8,096	8,705	8,918	4,912
Restructuring and asset impairment charges [2][4]	2,761	1,421	—	—	—
Total operating expenses	233,919	243,469	238,449	235,309	183,817
Income (loss) from operations	(21,571)	(23,024)	(17,917)	1,507	(6,501)
Interest income, net	132	219	515	374	1,082
Other expense, net	(356)	(347)	(293)	(514)	(785)
Income (loss) from continuing operations before income taxes	(21,795)	(23,152)	(17,695)	1,367	(6,204)
Provision for (benefit from) income taxes [1][3]	24,453	(44,741)	(1,506)	(651)	5,617
Income (loss) from continuing operations [6]	$(46,248)	$21,589	$(16,189)	$2,018	$(11,821)
Net income (loss) per share from continuing operations:					
Basic	$(0.50)	$0.20	$(0.14)	$0.02	$(0.12)
Diluted	$(0.50)	$0.20	$(0.14)	$0.02	$(0.12)
Shares used in per share calculation:					
Basic	92,508	106,529	116,457	115,175	101,487
Diluted	92,508	107,808	116,457	116,427	101,487

	As of December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Consolidated Balance Sheet Data					
Cash, cash equivalents and short-term investments	$104,879	$170,581	$201,176	$161,837	$120,371
Working capital	$142,754	$243,650	$293,978	$279,060	$217,898
Total assets	$480,518	$606,084	$717,531	$734,166	$720,386
Stockholders’ equity	$371,813	$494,166	$553,413	$564,316	$520,203

(1) 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. This unfavorable impact was partially offset by the release of $9.0 million of tax reserves in 2014, including

Table of Contents

accrued interests and penalties, for our 2010 tax year in the U.S., as a result of the expiration of the statute of limitation for that tax year.
(2) In 2014, we recorded restructuring and asset impairment charges of $3.1 million, of which $2.8 million is included in operating expenses and $0.3 million is included in cost of revenue (See Note 11, "Restructuring and Asset Impairment Charges," of the notes to our Consolidated Financial Statements).
(3) In 2013, we released $39.0 million of tax reserves, including accrued interests and penalties, for our 2008 and 2009 tax years in the U.S., as a result of the expiration of the statute of limitations for those tax years.
(4) In 2013, we recorded restructuring charges of $2.2 million, of which $1.4 million is included in operating expenses and $0.8 million is included in cost of revenue (See Note 11, "Restructuring and Asset Impairment Charges," of the notes to our Consolidated Financial Statements).
(5) We acquired Omneon, Inc. on September 15, 2010 and its results of operations are included from the date of acquisition. In addition, the 2010 operating expenses include a charge of $5.9 million for acquisition costs related to the Omneon acquisition, $3.0 million of excess facilities charges, primarily related to the closure of the Omneon Sunnyvale office, and $1.6 million for severance expenses.
(6) Income (loss) from continuing operations for 2014, 2013, 2012, 2011 and 2010 included stock-based compensation expense of $17.3 million, $16.0 million, $18.4 million, $20.3 million and $15.0 million, respectively.

Table of Contents

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and the related notes. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and those listed under Item 1A, Risks Factors.

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.

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 2014, 2013 and 2012 accounted for approximately 35%, 31% and 31% of our revenue, respectively. 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. During 2014, 2013 and 2012, revenue from Comcast accounted for 16%, 12% and 11%, respectively, of our revenue. 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 6% from $462 million in 2013 to $434 million in 2014. The change in our 2014 net revenue was impacted by three primary trends, the first of which was positive and the remaining two were negative. First, worldwide demand for narrowcast edge QAMs remained strong in 2014. This demand, paired with our strategic initiative to enter the CCAP market and the introduction of our NSG Pro platform in late 2013, drove the increase in our Cable Edge segment revenue in 2014. Second, we experienced a significant decline in our EMEA revenue in 2014, partly due to a substantial economic slowdown in the emerging markets of that region, where we had experienced strong growth in prior years. While APAC performed largely as we expected, Russia, the Middle East, and Africa proved challenging. Russia, the Middle East and Africa each faced softening macroeconomic environments and heightened geopolitical concerns throughout 2014. As a result, our revenue decreased 30% in 2014 from 2013 in these three geographies. Third, we experienced a spending pause by some of our customers ahead of the industry's shift to Ultra HD video and HEVC compression, which was compounded by our customers contemplating transitions to next-generation video processing architectures, which we introduced with the launch of our software-based VOS platform in April 2014. New and existing broadcast and media company and service provider customers delayed projects in 2014 to reconsider their global video processing architectures, and we believe this trend could continue in varying degrees for the next several quarters.

As a result of the decrease in our net revenue in 2014, we implemented restructuring plans to bring our operating expenses more in line with net revenues, while simultaneously implementing extensive, company-wide expense control

Table of Contents

programs (See Note 11, "Restructuring and Asset Impairment Charges," of the notes to our Consolidated Financial Statements for additional information).

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. In 2014, we made strategic minority investments in cloud-based technology companies such as Encoding.com, Inc. and VJU ITV Development GmbH.

As a result of the sale of our cable access HFC business to Aurora Networks in March 2013, the Consolidated Statements of Operations have been retrospectively adjusted to present the cable access HFC business as discontinued operations, as described in Note 3, "Discontinued Operations," of the notes to our Consolidated Financial Statements. Unless otherwise noted, all discussions herein with respect to the Company's consolidated financial statements relate to the Company's continuing operations.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The preparation of financial statements and related disclosures requires Harmonic to make judgments, assumptions and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingencies and the reported amounts of revenue and expenses in the financial statements and accompanying notes. Material differences may result in the amount and timing of revenue and expenses if different judgments or different estimates were made. See Note 2 of the notes to our Consolidated Financial Statements for details of our accounting policies. Critical accounting policies, judgments and estimates that we believe have the most significant impact on Harmonic’s financial statements are set forth below:

- Revenue recognition;
- Valuation of inventories;
- Impairment of goodwill or long-lived assets;
- Assessment of the probability of the outcome of current litigation;
- Accounting for income taxes; and
- Stock-based compensation.

REVENUE RECOGNITION

Harmonic’s principal sources of revenue are from the sale of hardware, software, hardware and software maintenance contracts, and the sale of end-to-end solutions, encompassing design, manufacture, test, integration and installation of products. Harmonic recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured.

We generally use contracts and customer purchase orders to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the sales price is fixed or determinable based on the payment terms associated with the transaction and whether the price is subject to refund or adjustment. We assess collectability based primarily on the creditworthiness of the customer, as determined by credit checks and analysis, as well as the customer’s payment history.

Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. Because of the concentrated nature of our customer base, different judgments or estimates made for any one large contract or customer could result in material differences in the amount and timing of revenue recognized in any particular period.

We have multiple-element revenue arrangements that include hardware and software essential to the hardware product’s functionality, non-essential software, services and support. We allocate revenue to all deliverables based on their relative selling prices. We determine the relative selling prices by first considering vendor-specific objective evidence of fair value (“VSOE”), if it exists; otherwise third-party evidence (“TPE”) of the selling price is used. When we are unable to establish selling price using VSOE or TPE, we use our best estimate of selling price (“BESP”) in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings. The Company’s process for determining BESP involves management's judgment, and considers multiple factors that may vary over time, depending upon the unique facts and circumstances related to each deliverable. If the facts and

Table of Contents

circumstances underlying the factors considered change or should future facts and circumstances lead the Company to consider additional factors, the Company's BESP may also change. Once revenue is allocated to all deliverables based on their relative selling prices, revenue related to hardware elements (hardware, essential software and related services) are recognized using a relative selling price allocation and non-essential software and related services are recognized under the residual method.

Sales of stand-alone software that are not considered essential to the functionality of the hardware continue to be subject to the software revenue recognition guidance. In accordance with the software revenue recognition guidance, the Company applies the residual method to recognize revenue for the delivered elements in stand-alone software transactions. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration, less the aggregate fair value of any undelivered elements, typically maintenance, provided that VSOE of fair value exists for all undelivered elements. We establish fair value by reference to the price the customer is required to pay when an item is sold separately, using contractually stated, substantive renewal rates, when applicable, or the price of recently completed stand alone sales transactions. Accordingly, the determination as to whether appropriate objective and reliable evidence of fair value exists can impact the timing of revenue recognition for an arrangement.

Solution sales for the design, manufacture, test, integration and installation of products are accounted for in accordance with applicable guidance on accounting for performance of construction/production contracts, using the percentage-of-completion method of accounting when various requirements for the use of this accounting guidance exist. Under the percentage-of-completion method, our revenue recognized reflects the portion of the anticipated contract revenue that has been earned, equal to the ratio of actual labor hours expended to total estimated labor hours to complete the project. Costs are recognized proportionally to the labor hours incurred. Management believes that, for each such project, labor hours expended in proportion to total estimated hours at completion represents the most reliable and meaningful measure for determining a project's progress toward completion. This requires us to estimate, at the outset of each project, a detailed project plan and associated labor hour estimates for that project. For contracts that include customized services for which labor costs are not reasonably estimable, the Company uses the completed contract method of accounting. Under the completed contract method, 100% of the contract's revenue and cost is recognized upon the completion of all services under the contract. If the estimated costs to complete a project exceed the total contract amount, indicating a loss, the entire anticipated loss is recognized. Our application of the percentage-of-completion method of accounting is subject to our estimates of labor hours to complete each project. In the event that actual results differ from these estimates or we adjust these estimates in future periods, our operating results, financial position or cash flows for a particular period could be adversely affected.

Revenue on shipments to resellers and systems integrators is generally recognized on delivery. Allowances are provided for estimated returns and such allowances are adjusted periodically to reflect actual and anticipated experience. Resellers and systems integrators purchase our products for specific capital equipment projects of the end-user and do not hold inventory. They perform functions that include importation, delivery to the end-customer, installation or integration, and post-sales service and support. Our agreements with these resellers and systems integrators have terms which are generally consistent with the standard terms and conditions for the sale of our equipment to end users and do not provide for product rotation or pricing allowances, as are typically found in agreements with stocking resellers. We have long-term relationships with most of these resellers and systems integrators and substantial experience with similar sales of similar products. We do have instances of accepting product returns from resellers and system integrators. However, such returns typically occur in instances where the system integrator has designed a product into a project for the end user, but the integrator requests permission to return the component as it does not meet the specific project's functional requirements. Such returns are made solely at our discretion, as our agreements with resellers and system integrators do not provide for return rights. We have extensive experience monitoring product returns from our resellers, and, accordingly, we have concluded that the amount of future returns can be reasonably estimated in accordance with applicable accounting guidance. If the actual future returns were to deviate from the historical data on which the reserve had been established, our revenue could be adversely affected.

VALUATION OF INVENTORIES

We state inventories at the lower of cost or market. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. We write down the cost of excess or obsolete inventory to net realizable value based on future demand forecasts and historical consumption. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to record additional charges for excess and obsolete inventory and our gross margin could be adversely affected. Inventory management is of critical importance in order to balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

IMPAIRMENT OF GOODWILL OR LONG-LIVED ASSETS

Table of Contents

Goodwill represents the difference between the purchase price and the estimated fair value of the identifiable assets acquired and liabilities assumed. We test for goodwill impairment at the reporting unit level on an annual basis in the fourth quarter of each of our fiscal years, and at any other time at which events occur or circumstances indicate that the carrying amount of goodwill may exceed its fair value. We use a two-step process to determine the amount of goodwill impairment. The first step requires comparing the fair value of the reporting unit to its net book value, including goodwill. A potential impairment exists if the fair value of the reporting unit is lower than its net book value. The second step of the process, which is performed only if a potential impairment exists, involves determining the difference between the fair value of the reporting unit's net assets other than goodwill and the fair value of the reporting unit. If this difference is less than the net book value of goodwill, an impairment exists and is recorded.

In 2013, we performed a goodwill impairment test as a single reporting unit. In 2014, due to a change in our reporting structure, the goodwill impairment is tested at our two reporting units, which are the same as our operating segments (see Note 18, "Segment Information, Geographic Information and Customer Concentration," of the notes to our Consolidated Financial Statements for additional information on operating segments). Goodwill is assigned to the reporting units using the relative fair values of the reporting units and the fair values of the reporting units were determined utilizing a blend of the income approach and the market approach. There was no impairment of goodwill resulting from our fiscal 2014 annual impairment testing in the fourth quarter of 2014, and based on our fiscal 2014 annual testing, we determined that none of our reporting units were at risk of failing the initial goodwill impairment testing step. In addition, we have not recorded any impairment charges related to goodwill for any prior periods. (See Note 8, “Goodwill and Identified Intangible Assets,” of the notes to our Consolidated Financial Statements for additional information)

We evaluate the recoverability of intangible assets and other long-lived assets when indicators of impairment are present. When impairment indicators are present, we evaluate the recoverability of intangible assets and other long-lived assets on the basis of undiscounted cash flows expected to result from the use of each asset group and its eventual disposition. If the undiscounted expected future cash flows are less than the carrying amount of the asset, an impairment loss is recognized in order to writedown the carrying value of the asset to its estimated fair market value. In connection with restructuring actions initiated during 2014, we recorded an impairment charge of $1.1 million in fiscal 2014 related to software development costs incurred for a discontinued IT project. We have not recorded any other significant impairment charges related to intangible assets or long-lived assets for any prior periods.

ASSESSMENT OF THE PROBABILITY OF THE OUTCOME OF CURRENT LITIGATION

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. We assess potential liabilities in connection with each lawsuit and threatened lawsuits and accrue 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 we are a party specify the damages claimed, such claims may not represent reasonably probable 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 United States District Court for the District of Delaware alleging that Harmonic’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 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.

In June 2012, Avid served a subsequent complaint in the United States District Court for the District of Delaware alleging that Harmonic's Spectrum product infringes one patent held by Avid. The complaint seeks injunctive relief and unspecified damages. On September 25, 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.

An unfavorable outcome on any litigation matters could require us to pay substantial damages, or, in connection with any intellectual property infringement claims, could require us to pay ongoing royalty payments or could prevent us from selling

Table of Contents

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 position and cash flows.

ACCOUNTING FOR INCOME TAXES

In preparing our financial statements, we estimate our income taxes for each of the jurisdictions in which we operate. This involves estimating our actual current tax exposures and assessing temporary differences resulting from differing treatment of items, such as reserves and accruals, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our Consolidated Balance Sheet.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our ability to realize any future benefit from our deferred tax assets. 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. In the event that actual results differ from these estimates or we adjust these estimates in future periods, our operating results and financial position could be materially affected.

We are subject to examination of our income tax returns by various tax authorities on a periodic basis. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. We apply the provisions of the applicable accounting guidance regarding accounting for uncertainty in income taxes, which requires application of a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions. If the recognition threshold is met, the applicable accounting guidance permits us to recognize a tax benefit measured at the largest amount of such tax benefit that, in our judgment, is more than fifty percent likely to be realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the period in which such determination is made.

Our 2008, 2009 and 2010 U.S. corporate income tax returns were audited by the Internal Revenue Service ("IRS") and one of our subsidiaries was under audit by the Israel tax authority for the years 2007 through 2011. However, the statute of limitations for the audit of our 2008 and 2009 tax years by the IRS expired in September 2013, effectively ending the IRS audits for those years. The statute of limitations for the audit of 2010 tax year by IRS expired in September 2014. As a result, in 2013, we released $39.0 million tax reserves, including accrued interests and penalties, for the 2008 and 2009 tax years and in 2014 we further released $9.0 million of related tax reserves, including accrued interest and penalties, for the 2010 tax year. Further, the audits by the Israel tax authority for our 2007 through 2011 tax years ended in 2013, and we reached a settlement with the Israel tax authority that did not involve any material adjustments.

The 2011 through 2014 tax years generally remain subject to examination by U.S. federal and most state tax authorities. In significant foreign jurisdictions, the 2006 through 2014 tax years generally remain subject to examination by their respective tax authorities.

We file annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes reflect the most likely outcome. We adjust these reserves, as well as the related interest and penalties, in light of changing facts and circumstances. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. 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. Any changes in estimate, or settlement of any particular position, could have a material impact on our operating results, financial condition and cash flows.

STOCK-BASED COMPENSATION

We measure and recognize compensation expense for all stock-based compensation awards made to employees and directors, including stock options, restricted stock units and awards related to our Employee Stock Purchase Plan

(“ESPP”), based upon the grant-date fair value of those awards. The grant date fair value of restricted stock units is based on the fair value of our common stock on the date of grant. The grant date fair value of our stock options and ESPP is estimated using the Black-Scholes option pricing model.
The determination of fair value of stock options and ESPP on the date of grant, using an option-pricing model, is affected by our stock price, as well as assumptions regarding a number of highly complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise

Table of Contents

behaviors, risk-free interest rates, and expected dividends. We estimated the expected life of the awards based on an analysis of our historical experience of employee exercise and post-vesting termination behavior considered in relation to the contractual life of the options and purchase rights. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the awards. We do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future. Accordingly, our expected dividend yield is zero.

Stock-based compensation expense recognized in the Consolidated Statement of Operations is based on awards ultimately expected to vest and therefore has been reduced for estimated forfeitures. The stock-based compensation guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

If factors change and we employ different assumptions to determine the fair value of our stock-based compensation awards granted in future periods, the compensation expense that we record under it may differ significantly from what we have recorded in the current period.

See Note 14 and Note 15 of the notes to our Consolidated Financial Statements for additional information.

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 segments for each of the three years ended December 31, 2014, 2013 and 2012 (in thousands, except percentages):

	Year ended December 31,						
	2014	2013	2012	2014 vs. 2013		2013 vs. 2012	
Video	$326,756	$381,994	$378,383	$(55,238)	(14)%	$3,611	1 %
Cable Edge	106,801	79,946	98,488	26,855	34 %	(18,542)	(19)%
Total net revenue	$433,557	$461,940	$476,871	$(28,383)	(6)%	$(14,931)	(3)%
Segment revenue as a % of total net revenue:							
Video	75 %	83 %	79 %				
Cable Edge	25 %	17 %	21 %				

The following table presents the breakdown of revenue by geographical region for each of the three years ended December 31, 2014, 2013 and 2012 (in thousands, except percentages):

Table of Contents

	Year ended December 31,								
	2014	2013	2012	2014 vs. 2013			2013 vs. 2012		
Americas	$245,849	$237,799	$257,527	$8,050	3	%	$(19,728)	(8	)%
EMEA	109,645	140,929	133,429	(31,284)	(22	)%	7,500	6	%
APAC	78,063	83,212	85,915	(5,149)	(6	)%	(2,703)	(3	)%
Total net revenue	$433,557	$461,940	$476,871	$(28,383)	(6	)%	$(14,931)	(3	)%

Regional revenue as a % of total net revenue:			
Americas	57 %	51 %	54 %
EMEA	25 %	31 %	28 %
APAC	18 %	18 %	18 %

Fiscal 2014 compared to Fiscal 2013

Our Video segment net revenue decreased $55.2 million, or 14%, in 2014 compared to 2013. This decrease was primarily attributable to a $59.5 million decrease in video product revenue, offset partially by a $4.3 million increase in video service revenue. Net revenue for our video processing products declined at nearly twice the rate of our production and playout products during 2014, primarily due to the spending pause of several of our customers as they looked ahead towards the industry's transition to Ultra HD and HEVC compression, compounded by our customers' adoption of next-generation video processing architectures, which corresponded with the launch of our software-based VOS platform in April 2014. The decrease in video segment net revenue was also impacted by EMEA's softening macroeconomic conditions in 2014. The increase in video service revenue was primarily attributable to increased maintenance revenue across all regions, except EMEA.

Our Cable Edge segment net revenue increased $26.9 million, or 34%, in 2014 compared to 2013. This increase was primarily attributable to increased sales of our NSG products, including the new NSG Pro CCAP product that was launched in the fourth quarter of 2013 and purchased by our largest U.S. cable customer. The continued increases in worldwide demand for Narrowcast edgeQAMs paired with our strategic initiative and introduction of NSG Pro platform drove the strong demand for our NSG products in the service provider market.

Net revenue in the Americas increased $8.1 million, or 3%, in 2014 compared to 2013 primarily due to increased sales of our cable edge products to North American cable operators, offset partially by decreased sales of our production and playout products to the North American broadcast and media market, which was primarily due to the spending pause ahead of the key technology transitions in the video products. This technology spending pause also contributed to the decline in net revenue in EMEA and APAC in 2014. APAC net revenue decreased $5.1 million, or 6%, in 2014 compared to 2013 and EMEA net revenue decreased $31.3 million, or 22%, in 2014 compared to 2013. The decrease in EMEA net revenue was attributable to extraordinary economic and geopolitical unrest in this region, more specifically, Russia, Africa and pockets of the Middle East, which decreased significantly in 2014, impacting overall softness throughout Europe.

Fiscal 2013 compared to Fiscal 2012

Video segment net revenue increased $3.6 million, or 1%, in 2013 compared to 2012 due to a $5.7 million increase in video service revenue, offset partially by a $2.1 million decrease in video product revenue. The increase in video service revenue was primarily driven by the revenue recognition of a multi-million dollar, long-term contract in Europe. The decrease in video product revenue was primarily attributable to lower sales of our production and playout servers in the APAC region as, in 2012, we benefited from higher revenues in emerging markets in this region. The decrease in production and playout revenue was partially offset by increased sales of our encoder and decoder products, principally in the broadcast and media market. Cable segment net revenue decreased $18.5 million, or 19%, in 2013 compared to 2012 due to the softness in the U.S. and Canada cable Pay-TV service provider markets in the first half of 2013, as some of the providers were looking ahead to the availability of new technologies, including CCAP-enabled products. Cable edge product revenue for the second half of 2013 increased 28% over the first half of 2013 as customer’s buying patterns returned.

Net revenue in the Americas decreased $19.7 million, or 8%, in 2013 compared to 2012 principally due to lower sales in North America and the LATAM region. The decrease in North American revenue was primarily attributable to the softness in the cable Pay-TV service provider market, and the decrease in LATAM revenue was principally due to the timing of revenue recognition of certain projects. These decreases were offset partially by increased sales of our video processing products to North American broadcast and media customers and, to a lesser extent, production and playout products, primarily due to an increase in the number and size of system expansions and upgrades at our customers' sites. EMEA net revenue increased $7.5

Table of Contents

million, or 6%, in 2013 compared to 2012 primarily due to increased sales to the emerging markets, and to a lesser extent, the European countries, mostly for our video processing products and the recognition of service revenue from a multi-million dollar, long-term contract in the third quarter of 2013. APAC net revenue decreased $2.7 million, or 3%, in 2013 compared to 2012 primarily due to lower sales in our production and playout products.

Gross Profit

The following presents the gross profit and gross profit as a percentage of net revenue ("gross margin") for each of the three years ended December 31, 2014, 2013 and 2012 (in thousands, except percentages):

	Year ended December 31,				
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Gross profit	$212,348	$220,445	$220,532	$(8,097) (4)%	$(87) — %
As a percentage of net revenue ("gross margin")	49.0 %	47.7 %	46.2 %		

Gross margin increased to 49.0% in 2014 compared to 47.7% in 2013 despite a steep revenue mix shift in 2014 toward our lower margin cable edge products. The increase in gross margin was primarily due to the closing of several high-value transactions in 2014 and a higher proportion of software-rich product sales in 2014 as well as decreased expenses related to amortization of intangibles. The expense related to amortization of intangibles included in cost of revenue decreased from $19.2 million in 2013 to $13.7 million in 2014, due to certain purchased tangible assets becoming fully amortized.

Gross margin increased to 47.7% in 2013, compared to 46.2% in 2012. The increase in gross margin was primarily due to a mix shift toward more software license sales. The gross margin of our cable edge product improved in 2013, compared to 2012, as we sold more software licenses into the existing hardware products in 2013. In addition, in 2013, we had a higher proportion of our video processing and product and playout revenue related to sale of licenses and new software products. In 2013, we also benefited from our improved operational efficiencies and supply chain management. In 2013 and 2012, approximately $19.2 million and $20.5 million of expense related to amortization of intangibles were included in cost of revenue.

Research and Development

Our research and development expense consists 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. The following table presents the research and development expenses and the expense as a percentage of net revenue for each of the three years ended December 31, 2014, 2013 and 2012 (in thousands, except percentages):

	Year ended December 31,				
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Research and development	$93,061	$99,938	$102,627	$(6,877) (7)%	$(2,689) (3)%
As a percentage of net revenue	21.5 %	21.6 %	21.5 %		

The $6.9 million, or 7%, decrease in research and development expense in 2014 compared to 2013 was primarily attributable to decreased headcount and related expenses, including contractors, of $6.6 million, decreased prototype materials costs of $0.6 million and decreased facilities and other expenses of $1.3 million. The decrease in headcount related expenses was primarily the result of restructuring programs implemented in fiscal 2013. The decreases in research and development expenses in 2014 were offset partially by increased expenses on consulting and outside engineering services of $1.6 million, primarily related to increased shift of research and development resources to lower cost facilities.

The $2.7 million, or 3%, decrease in research and development expense in 2013 compared to 2012 was primarily attributable to decreased headcount and related expenses of $3.5 million and decreased prototype materials costs of $1.4 million. The decrease in headcount related expense was mainly due to a reduction in headcount and a decrease in accrual for employee time off benefits. Effective April 1, 2013, we implemented a new program which no longer requires the accrual of employee time off benefits. These decreases in research and development expenses in 2013 were offset partially by increased expenses on consulting and outside engineering services of $2.5 million, primarily related to increased level of outsourced engineering services.

Table of Contents

Selling, General and Administrative

The following table presents the selling, general and administrative expenses and the expense as a percentage of net revenue for each of the three years ended December 31, 2014, 2013 and 2012 (in thousands, except percentages):

	Year ended December 31,						
	2014	2013	2012	2014 vs. 2013		2013 vs. 2012	
Selling, general and administrative	$131,322	$134,014	$127,117	$(2,692)	(2)%	$6,897	5 %
As a percentage of net revenue	30.3 %	29.0 %	26.7 %				

The $2.7 million, or 2%, decrease in selling, general and administrative expenses in 2014 compared to 2013 was primarily attributable to decreased legal and other professional fees of $2.8 million, primarily the result of our legal proceedings with Avid and $0.7 million attributable to shareholder activist activity in the second quarter of 2013, decreased headcount and related expense, including contractors, of $1.8 million, decreased third-party commission expense of $0.5 million. These decreases were offset partially by $3.1 million of increased facilities rental and other operating expense as well as, increased depreciation for demonstration equipment.

The $6.9 million, or 5%, increase in selling, general and administrative expenses in 2013 compared to 2012 was primarily attributable to increased headcount and related expense of $5.3 million, increased legal fees of $1.9 million, driven mainly by the legal proceedings with Avid, increased depreciation of $1.5 million related to an increased number of demonstration equipment, and advisory and legal costs of $0.7 million related to shareholder activist activity in the second quarter of 2013. The increase in headcount and related expense in 2013 was primarily due to an increase in headcount and bonus expense, offset partially by a reduction in the accrual for employee time off benefits. Effective April 1, 2013, the Company implemented a new program which no longer requires the accrual of employee time off benefits. These increases in 2013 expenses were offset partially by decreased professional fees and outside services and decreased software license subscriptions.

Segment Operating Income

The following table presents a breakdown of operating income by segment for each of the three years ended December 31, 2014, 2013 and 2012 (in thousands, except percentages):

	Year ended December 31,						
	2014	2013	2012	2014 vs. 2013		2013 vs. 2012	
Video	$18,073	$24,583	$27,565	$(6,510)	(26)%	$(2,982)	(11)%
Cable Edge	1,239	(1,282)	2,150	2,521	197 %	(3,432)	(160)%
Total segment operating income	$19,312	$23,301	$29,715	(3,989)	(17)%	(6,414)	(22)%
Segment operating income (loss) as a % of segment revenue:							
Video	6 %	6 %	7 %				
Cable Edge	1 %	(2)%	2 %				

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

	Year ended December 31,		
	2014	2013	2012
Total operating income by segment	$19,312	$23,301	$29,715
Unallocated corporate expenses	(3,076)	(2,994)	—
Stock-based compensation	(17,287)	(16,002)	(18,428)
Amortization of intangibles	(20,520)	(27,329)	(29,204)
Consolidated operating loss	(21,571)	(23,024)	(17,917)

Non-operating income (loss)	(224)	(128)	222
Loss from continuing operations before income taxes	$(21,795)	$(23,152)	$(17,695)

44

Table of Contents

Fiscal 2014 compared to Fiscal 2013

Video segment operating income decreased $6.5 million, or 26%, in 2014 compared to 2013 primarily attributable to lower sales volume in 2014. Despite decreased sales volume in 2014, Video segment operating margin remained at 6% in 2014 primarily due to the closing of several high-value transactions in 2014 and a higher proportions of software-rich product sales in 2014.

Cable Edge segment operating income increased $2.5 million, or 197%, in 2014 compared to 2013 and operating margin increased from (2)% in 2013 to 1% in 2014. The increase in Cable Edge operating income and margin in 2014 was primarily attributable to higher sales volume in 2014, a higher proportion of software-rich product sales in 2014, and continued improvements to our supply chain and manufacturing processes.

Fiscal 2013 compared to Fiscal 2012

Video segment operating income decreased $3.0 million, or 11%, in 2013 compared to 2012 and operating margin decreased from 7% in 2012 to 6% in 2013. The decrease in Video segment operating income and operating margin was primarily attributable to higher depreciation expenses related to an increased number of demonstration equipment units and higher legal fees associated with the legal proceedings with Avid.

Cable Edge segment operating income decreased $3.4 million, or 160%, in 2013 compared to 2012 and operating margin decreased from 2% in 2012 to (2)% in 2013. The decrease in Cable Edge operating income and margin in 2013 was primarily attributable to decreased sales volume in 2013 and higher investment cost incurred in research and development for projects related to the new CCAP technology.

Amortization of Intangibles

Amortization of intangibles was $6.8 million, $8.1 million and $8.7 million during 2014, 2013 and 2012 respectively. The decreases in the amortization of intangibles expense in each year were primarily due to certain purchased tangible assets becoming fully amortized.

Restructuring and Asset Impairment Charges

We implemented several restructuring plans in the past few years and recorded restructuring and asset impairment charges of $3.1 million and $2.2 million for the years ended December 31, 2014 and 2013, respectively, and there were no charges for the year ended December 31, 2012. The goals of these plans were to bring operational expenses to appropriate levels relative to its 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 asset impairment charges” in the Condensed Consolidated Statements of Operations. The following table summarizes the restructuring and asset impairment charges (in thousands):

	Year ended December 31,		
	2014	2013	2012
Product cost of revenue	$315	$823	$—
Operating expenses-Restructuring and asset impairment charges	2,761	1,421	—
Total	$3,076	$2,244	$—

The restructuring and asset impairment charges of $3.1 million in 2014 consisted of $2.2 million and $0.9 million incurred under the Harmonic 2015 Restructuring Plan and Harmonic 2013 Restructuring Plan, respectively.

The Harmonic 2015 Restructuring Plan was approved and initiated in the fourth quarter of 2014 and the charges recorded under this Plan in 2014 consisted of $1.1 million fixed asset impairment charge related to software development costs incurred for a discontinued project, $0.6 million of severance and benefits related to the termination of 19 employees worldwide, $0.3 million of excess materials costs associated with the termination of a research and development project and $0.1 million of other charges. The $0.9 million restructuring and asset impairment charges recorded in 2014 related to the Harmonic 2013 Restructuring Plan which commenced in 2013 and extended through the third quarter of 2014 consisted primarily of severance and benefits related to the termination of 25 employees worldwide.

Table of Contents

The restructuring charges of $2.2 million in 2013 were under the Harmonic 2013 Restructuring Plan and consisted of $1.7 million severance and benefits related to the termination of 85 employees worldwide. In addition, we wrote-down, to its estimated net realizable value, leasehold improvements and furniture related to our Milpitas warehouse by $0.1 million, and wrote-down inventory to reflect $0.4 million of obsolete inventories arising from the restructuring of our Israel facilities.

See Note 11, "Restructuring and Asset Impairment Charges," of the notes to our Consolidated Financial Statements for additional information.

Interest Income, Net

Interest income, net was $0.1 million, $0.2 million and $0.5 million during 2014, 2013 and 2012, respectively. The decreases in interest income, net in each year were primarily due to a lower average balance of cash, cash equivalents and short-term investments invested resulting from the continuous repurchase of shares under our stock repurchase program, and to a lesser extent, a decrease in the rate of return on such investments.

Other Expense, Net

Other expense, net was $0.4 million, $0.3 million and $0.3 million during 2014, 2013 and 2012, respectively. Other expense, net is primarily comprised of foreign exchange gains and losses on cash, accounts receivable and intercompany balances denominated in currencies other than the U.S. dollar. To mitigate the volatility related to fluctuations in the foreign exchange rates, we enter into various foreign currency forward contracts. The gain (loss) on foreign currency is driven by the fluctuations in the foreign currency exchanges rates, primarily the Euro, British pound, Japanese yen and Israeli shekels.

Income Taxes

We reported the following operating results for each of the three years ended December 31, 2014, 2013 and 2012 (in thousands, except percentages):

	Year ended December 31,		
	2014	2013	2012
Loss from continuing operations before income taxes	(21,795)	(23,152)	(17,695)
Provision for (benefit from) income taxes	24,453	(44,741)	(1,506)
Effective income tax rate	(112)%	193%	9%

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 forward, 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 statutes of limitation, or settlement with the tax authorities. See Note 16, "Income Taxes," of the notes to our Consolidated Financial Statements for the reconciliation of how our provision for (benefit from) income taxes differ from the amount computed by applying the U.S. federal income tax rate of 35% to income (loss) before income taxes.

The increase in provision for income taxes in 2014 compared to 2013 was primarily attributable to increase in valuation allowance against U.S. net deferred tax assets. In 2014, as a result of cumulated losses in the recent years and the analysis of all available positive and negative evidence, we recorded a full valuation allowance against the beginning of year U.S. net deferred tax assets of $34.0 million. In addition, in 2014, we carried back our 2013 federal net operating loss to 2011 resulting in a tax refund. Certain federal R&D credits were also freed up as a result and utilized to offset income tax reserves as a result of the adoption of the ASU 2013-11. These two events reduced the valuation allowance by approximately $5.0 million and led to the net change of valuation allowance of $29.0 million. This unfavorable net impact was offset partially by a tax benefit of $9.0 million associated with the release of tax reserves including accrued interest and penalties, for our 2010 tax year in the U.S., as a result of the expiration of the applicable statute of limitation for that year.

The increase in benefit from income taxes in 2013 compared to 2012, was primarily attributable to the release of $39.0 million of tax reserves in 2013, including accrued interests and penalties, for our 2008 and 2009 tax years in the U.S., as a result of the expiration of the applicable statute of limitations for those tax years, and to a lesser extent, the tax benefit associated with the reinstatement of the federal research and development tax credit for 2012 and the mix of income and losses in the various tax jurisdictions in which we operate.

Table of Contents

Discontinued Operations

On February 18, 2013, the Company entered into an Asset Purchase Agreement with Aurora pursuant to which the Company agreed to sell its cable access HFC business for $46 million in cash. On March 5, 2013, the sale transaction closed and the Company received gross proceeds of $46 million from the sale and recorded a net gain of $14.7 million in connection with the sale. See Note 3, "Discontinued Operations" of the notes to our Consolidated Financial Statements for additional information.

Liquidity and Capital Resources

As of December 31, 2014, our cash and cash equivalents totaled $73.0 million, and our short-term investments totaled $31.8 million. We believe our current liquidity position as of December 31, 2014, together with the prospects for continued generation of cash from operating activities are adequate for our business needs in the next 12 months, including any stock repurchases under our present stock repurchase program.

At December 31, 2014, a majority of our cash, cash equivalents and short-term investments were held in accounts in the United States. We provide for U.S. income taxes on the earnings of foreign subsidiaries unless the earnings are considered indefinitely invested outside of the U.S. As of December 31, 2014, no provision had been made for U.S. income taxes or foreign withholding taxes on $17.1 million of cumulative undistributed earnings of foreign subsidiaries since we intend to indefinitely reinvest these earnings outside the U.S. We determined that the calculation of the amount of unrecognized deferred tax liability related to these cumulative unremitted earnings was not practicable. If these earnings were distributed to the U.S., we could be subject to additional U.S. income taxes and foreign withholding taxes.

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 some 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 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 reborrowed until December 22, 2015, at which time all amounts borrowed must be repaid. There were no borrowings under the Credit Agreement during the year ended December 31, 2014. As of December 31, 2014, the amount available for borrowing under this facility was $20.0 million.

The revolving loan bears interest, at our election, at either (a) an adjusted LIBOR rate for a term of 1 month, 2 months, or 3 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 2/3% of our equity interests in our foreign subsidiary, Harmonic International AG. Additionally, to the extent that in the future we form any direct or indirect, domestic, material subsidiaries, 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 December 31, 2014, we were in compliance with the covenants under the Credit Agreement.

Table of Contents

On December 19, 2014, in connection with our entry into the Credit Agreement with JPMorgan, we terminated our credit facility dated as of August 11, 2011 with Silicon Valley Bank ("SVB"). The SVB Credit Facility had provided for a $10.0 million unsecured revolving credit line, expiring on December 31, 2014. No penalties were due in connection with the termination of the SVB Credit Facility.

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 European economic slowdown, market uncertainty surrounding necessary increases in the U.S. debt limit and its future debt obligations, the impact of increases in oil prices, 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.

	Year ended December 31,		
	2014	2013	2012
	(In thousands)		
Net cash provided by operating activities	$47,369	$53,759	$70,813
Net cash provided by (used in) investing activities	27,799	51,094	(47,549)
Net cash used in financing activities	(92,007)	(111,202)	(17,699)
Effect of exchange rate changes on cash and cash equivalents	(458)	8	122
Net (decrease) increase in cash and cash equivalents	$(17,297)	$(6,341)	$5,687

Operating Activities

Net cash provided by operations was $47.4 million in 2014, resulting from our net loss of $46.2 million, adjusted for non-cash items of $93.6 million, which primarily consisted of amortization of intangibles, stock-based compensation, depreciation and change in deferred income taxes. Deferred income taxes decreased $32.2 million primarily related to the increase in U.S. federal and California tax valuation allowance 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. Changes in operating assets and liabilities in 2014 were minimal. An increase in deferred revenue of $11.2 million primarily due to the timing of periodic service and support billings for annual contracts and a decrease in inventories of $1.6 million was offset by a decrease in income tax payable of $7.1 million primarily due to the reversal of federal income tax reserves as a result of the expiration of the statute of limitation and a decrease in accrued liabilities of $1.4 million primarily due to lower accrual for headcount related expenses, as well as, an increase in accounts receivable of $1.0 million, and an increase in prepaid and other assets of $3.3 million primarily related to an advance payment for software license purchases paid to Vislink plc (see Note 5, "Investments in Other Equity Securities" of the notes to our Consolidated Financial Statements for additional information).

Net cash provided by operations was $53.8 million in 2013, resulting from a net income of $37.0 million, adjusted for $43.5 million in non-cash items, and a $26.8 million decrease in cash associated with the net change in operating assets and liabilities. The non-cash items primarily included amortization of intangible assets, stock-based compensation, depreciation, provisions for excess and obsolete inventories, doubtful accounts and sales returns, and partially offset by a $14.7 million gain on disposal of discontinued operations, net of tax and adjustment to deferred income taxes. The net change in operating assets and liabilities included decreases in income tax payable, accounts payable and accrued and other liabilities and deferred revenue, which were partially offset by decreases in inventories, accounts receivable and prepaid and other assets. The decrease in income tax payable was primarily due to the release of $39.0 million of tax reserves in 2013, including accrued interests and penalties, for our 2008 and 2009 tax years in the U.S., as a result of the expiration of the applicable statute of limitations for those tax years. The decrease in accrued and other liabilities reflected the settlement of the U.S. employee accrued time off benefit balance of $4.5

million in April 2013, as we implemented a new employee time off program and, as a result, are no longer required to accrue for employee time off benefits in the U.S. In addition, there was no ESPP contributions as of December 31, 2013, as the plan was suspended for the second half of 2013. The decrease in inventories was primarily due to lower purchases resulting from the sale of the cable access HFC business and our efforts to better optimize our supply chain and the decrease in accounts receivable was primarily due to further improvements in our collection process. The decrease in prepaid and other assets was despite a $7.5 million advance payment made to a supplier in December 2013 for future inventory requirements.

Table of Contents

Cash provided by operations was $70.8 million in 2012, resulting from a net loss of $10.9 million, adjusted for $66.2 million in non-cash items, and a $15.5 million increase in cash associated with the net change in operating assets and liabilities. The non-cash items primarily included amortization of intangible assets, stock-based compensation, depreciation, provisions for excess and obsolete inventories, doubtful accounts and sales returns, and deferred income taxes. The net change in operating assets and liabilities included decreases in accounts receivable and inventories, as well as increases in deferred revenue and income taxes payable, partially offset by increases in prepaid expenses, as well as decreases in accounts payable and accrued liabilities. The decrease in accounts receivable was primarily due to improvement in our collection process, and the decrease in inventory was primarily due to improvement in our supply chain process. The decrease in accounts payable was primarily due to the timing of purchases and payments in the last quarter of 2012. The increase in income tax payable was primarily due to lower estimated tax payments made in 2012, compared to 2011.

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 provided by investing activities was $27.8 million in 2014, primarily resulting from net proceeds from the sale and maturity of investments of $73.9 million, partially offset by the purchase of short-term investments of $26.6 million, capital expenditures of $10.1 million, and purchases of long-term investments of $9.4 million.

Net cash provided by investing activities was $51.1 million in 2013, primarily resulting from net proceeds from the sale of discontinued operations of $43.5 million and proceeds from the net sale and maturity of investments of $100.9 million, partially offset by the purchase of short-term investments of $78.8 million and capital expenditures of $14.6 million.

Net cash used in investing activities was $47.5 million in 2012, primarily resulting from the purchase of short-term investments of $133.8 million and capital expenditures of $12.6 million, offset by proceeds from the sale and maturity of investments of $98.8 million.

Financing Activities

Net cash used in financing activities was $92.0 million in 2014, primarily resulting from $93.1 million of payments for the repurchase of common stock in connection with our stock repurchase program, partially offset by $1.1 million of net proceeds from the issuance of common stock related to our equity incentive plans.

Net cash used in financing activities was $111.2 million in 2013, primarily resulting from $116.5 million of payments for the repurchase of common stock in connection with our stock repurchase program, of which $40.6 million was spent on open market transactions and $75.9 million, including related costs, was spent in our "modified Dutch auction" tender offer, which closed on May 24, 2013. The payments for the repurchase of common stock were offset by $5.2 million of net proceeds from the issuance of common stock related to our equity incentive plans.

Net cash used in financing activities was $17.7 million in 2012, primarily resulting from $22.6 million of payments for the repurchase of common stock in connection with our stock repurchase program announced in April 2012, offset in part by $4.8 million of net proceeds from the issuance of common stock related to our equity incentive plans.

OFF-BALANCE SHEET ARRANGEMENTS

None as of December 31, 2014.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future payments under contractual obligations and other commercial commitments, as of December 31, 2014, after giving effect to $0.2 million of future sublease income from Aurora, are as follows:

Table of Contents

	Payments Due by Period				
	Total Amounts Committed	1 Year or Less	2 -3 Years	4-5 Years	Over 5 Years
	(In thousands)				
Operating leases	$49,377	$10,412	$17,007	$15,835	$6,123
Purchase commitments	21,303	21,303	—	—	—
Total contractual obligations	$70,680	$31,715	$17,007	$15,835	$6,123
Other commercial commitments:					
Standby letters of credit	$443	$443	$—	$—	$—
Indemnification obligations (1)	—	—	—	—	—
Total commercial commitments	$443	$443	$—	$—	$—

(1) We indemnify our officers and the members of our Board pursuant to our bylaws and contractual indemnity agreements. We also indemnify some of our suppliers and most of our customers for specified intellectual property matters and some of our other vendors, such as building contractors, pursuant to certain parameters and restrictions. The scope of these indemnities varies, but, in some instances, includes indemnification for defense costs, damages and other expenses (including reasonable attorneys' fees).

Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2014, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, approximately $5.0 million of unrecognized tax benefits classified as "Income taxes payable, long-term" in the accompanying Consolidated Balance Sheet as of December 31, 2014, had been excluded from the contractual obligations table above. See Note 16, "Income Taxes" of the notes to our Consolidated Financial Statements for a discussion on income taxes.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 of the accompanying Consolidated Financial Statements for a full description of recent accounting pronouncements, including the respective expected dates of adoption and effects on results of operations and financial condition.

Table of Contents

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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%, 12%, and 9% of net revenue in 2014, 2013 and 2012, 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 and 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.

Cash Flow Hedges

In 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 contacts 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)" ("OCI") in the Consolidated Balance Sheet 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 OCI to earnings immediately.

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)" in the 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 equivalent of all outstanding notional amounts of foreign currency forward contracts are summarized as follows (in thousands):

	December 31,	
	2014	2013
Derivatives designated as cash flow hedges:		
Purchase	$16,903	$—
Derivatives not designated as hedging instruments:		
Purchase	$1,043	$15,039
Sell	$4,925	$20,945

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 December 31, 2014, our cash, cash equivalents and short-term investments balance was $104.9 million and we have no borrowings during the year ended December 31, 2014.

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 years ended December 31, 2014, 2013 and 2012, realized gains and realized losses from the sale of investments were not material. The $0.8 million unrealized loss from investments for the year ended December 31, 2014 was primarily related to our investment in Vislink, plc ("Vislink"), a U.K.

Table of Contents

public company listed on the AIM exchange (See Note 5, "Investments in Other Equity Securities," of the notes to our Consolidated Financial Statements for additional information). We determined that there was no impairment indicators existing at December 31, 2014 that would indicate that the Vislink investment was impaired and we believe the decline in the fair value of Vislink investment is temporary. As of December 31, 2014, 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 investments, 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 December 31, 2014, a hypothetical 100 basis point increase in interest rates would result in a $0.1 million decline in the fair market value of the 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Harmonic Inc.:
In our opinion, the accompanying Consolidated Balance Sheets and the related Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income (Loss), Consolidated Statements of Stockholders' Equity, and Consolidated Statements of Cash Flows present fairly, in all material respects, the financial position of Harmonic Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
/S/ PRICEWATERHOUSECOOPERS LLP
PRICEWATERHOUSECOOPERS LLP
San Jose, California
March 2, 2015

Table of Contents

HARMONIC INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	2013
	(In thousands, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,032	$ 90,329
Short-term investments	31,847	80,252
Accounts receivable	74,144	75,052
Inventories	32,747	36,926
Deferred tax assets, short-term	3,375	24,650
Prepaid expenses and other current assets	17,539	21,521
Total current assets	232,684	328,730
Property and equipment, net	27,221	34,945
Goodwill	197,884	198,022
Intangibles, net	10,599	31,119
Other assets	12,130	13,268
Total assets	$ 480,518	$ 606,084
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,318	$ 22,380
Income taxes payable	893	331
Deferred revenues	38,601	27,020
Accrued liabilities	35,118	35,349
Total current liabilities	89,930	85,080
Income taxes payable, long-term	4,969	15,165
Deferred tax liabilities, long-term	3,095	—
Other non-current liabilities	10,711	11,673
Total liabilities	108,705	111,918
Commitments and contingencies (Note 19)		
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; 87,700 and 99,413 shares issued and outstanding at December 31, 2014 and 2013, respectively	88	99
Capital in excess of par value	2,261,952	2,336,275
Accumulated deficit	(1,888,247)	(1,841,999)
Accumulated other comprehensive loss	(1,980)	(209)
Total stockholders' equity	371,813	494,166
Total liabilities and stockholders' equity	$ 480,518	$ 606,084

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

Table of Contents

HARMONIC INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2014	2013	2012
	(In thousands, except per share amounts)		
Product revenue	$343,186	$376,598	$396,324
Service revenue	90,371	85,342	80,547
Total net revenue	433,557	461,940	476,871
Product cost of revenue	172,280	196,766	214,473
Service cost of revenue	48,929	44,729	41,866
Total cost of revenue	221,209	241,495	256,339
Gross profit	212,348	220,445	220,532
Operating expenses:			
Research and development	93,061	99,938	102,627
Selling, general and administrative	131,322	134,014	127,117
Amortization of intangibles	6,775	8,096	8,705
Restructuring and asset impairment charges	2,761	1,421	—
Total operating expenses	233,919	243,469	238,449
Loss from operations	(21,571)	(23,024)	(17,917)
Interest income, net	132	219	515
Other expense, net	(356)	(347)	(293)
Loss from continuing operations before income taxes	(21,795)	(23,152)	(17,695)
Provision for (benefit from) income taxes	24,453	(44,741)	(1,506)
Income (loss) from continuing operations	(46,248)	21,589	(16,189)
Income from discontinued operations, net of taxes (including gain on disposal of $14,663, net of taxes, for the year ended December 31, 2013)	—	15,438	5,252
Net income (loss)	$(46,248)	$37,027	$(10,937)
Basic net income (loss) per share from:			
Continuing operations	$(0.50)	$0.20	$(0.14)
Discontinued operations	$—	$0.14	$0.05
Net income (loss)	$(0.50)	$0.35	$(0.09)
Diluted net income (loss) per share from:			
Continuing operations	$(0.50)	$0.20	$(0.14)
Discontinued operations	$—	$0.14	$0.05
Net income (loss)	$(0.50)	$0.34	$(0.09)
Shares used in per share calculations:			
Basic	92,508	106,529	116,457
Diluted	92,508	107,808	116,457

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

Table of Contents

HARMONIC INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year ended December 31,		
	2014	2013	2012
	(In thousands)		
Net income (loss)	$(46,248)	$37,027	$(10,937)
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	(1,281)	260	395
Gain (loss) on investments	(815)	4	(1)
Unrealized gains (losses) on cash flow hedge	311	—	—
Other comprehensive income (loss) before tax	(1,785)	264	394
Income tax expense (benefit) related to items of other comprehensive income (loss)	(14)	8	(16)
Other comprehensive income (loss) net of tax	(1,771)	256	410
Comprehensive income (loss)	$(48,019)	$37,283	$(10,527)

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

Table of Contents

HARMONIC INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(In thousands)					
Balance at December 31, 2011	116,257	$116	$2,433,164	$(1,868,089)	$ (875)	$564,316
Net loss	—	—	—	(10,937)	—	(10,937)
Other comprehensive income, net of tax	—	—	—	—	410	410
Issuance of Common Stock under option, stock award and purchase plans	3,045	3	4,533	—	—	4,536
Repurchase of Common Stock	(5,109)	(5)	(22,634)	—	—	(22,639)
Stock-based compensation	—	—	18,926	—	—	18,926
Reduction in excess tax benefits from stock-based compensation	—	—	(1,199)	—	—	(1,199)
Balance at December 31, 2012	114,193	114	2,432,790	(1,879,026)	(465)	553,413
Net income	—	—	—	37,027	—	37,027
Other comprehensive income, net of tax	—	—	—	—	256	256
Issuance of Common Stock under option, stock award and purchase plans	3,482	3	5,183	—	—	5,186
Repurchase of Common Stock	(18,262)	(18)	(116,511)	—	—	(116,529)
Stock-based compensation	—	—	16,089	—	—	16,089
Reduction in excess tax benefits from stock-based compensation	—	—	(1,276)	—	—	(1,276)
Balance at December 31, 2013	99,413	99	2,336,275	(1,841,999)	(209)	494,166
Net loss	—	—	—	(46,248)	—	(46,248)
Other comprehensive loss, net of tax	—	—	—	—	(1,771)	(1,771)
Issuance of Common Stock under option, stock award and purchase plans	2,181	2	1,104	—	—	1,106
Repurchase of Common Stock	(13,894)	(13)	(93,115)	—	—	(93,128)
Stock-based compensation	—	—	17,287	—	—	17,287
Excess tax benefits from stock-based compensation	—	—	401	—	—	401
Balance at December 31, 2014	87,700	$88	$2,261,952	$(1,888,247)	$ (1,980)	$371,813

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

Table of Contents

HARMONIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$(46,248)	$37,027	$(10,937)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of intangibles	20,520	27,329	29,204
Depreciation	16,459	16,641	15,195
Stock-based compensation	17,287	16,089	18,926
Gain on sale of discontinued operations, net of tax	—	(14,663)	—
Restructuring, asset impairment and (gain) loss on retirement of fixed assets	1,622	244	(36)
Deferred income taxes, net	32,163	(8,537)	(4,969)
Provision for doubtful accounts and sales returns	1,943	960	3,602
Provision for excess and obsolete inventories	2,569	3,475	3,377
Excess tax benefits from stock-based compensation	(15)	(141)	(121)
Other non-cash adjustments, net	1,108	2,098	1,006
Changes in assets and liabilities:			
Accounts receivable	(1,035)	9,908	20,368
Inventories	1,610	13,290	3,003
Prepaid expenses and other assets	(3,332)	1,807	(2,684)
Accounts payable	56	(3,363)	(5,201)
Deferred revenues	11,162	(1,922)	1,334
Income taxes payable	(7,094)	(40,546)	1,535
Accrued and other liabilities	(1,406)	(5,937)	(2,789)
Net cash provided by operating activities	47,369	53,759	70,813
Cash flows from investing activities:			
Purchases of investments	(26,599)	(78,764)	(133,778)
Proceeds from maturities of investments	60,811	63,034	57,484
Proceeds from sales of investments	13,045	37,890	41,354
Purchases of property and equipment	(10,065)	(14,581)	(12,609)
Proceeds from sale of discontinued operations, net of selling costs	—	43,515	—
Purchases of long-term investments	(9,393)		