HARMONIC INC
Form DEF 14A
April 30, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

HARMONIC INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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HARMONIC INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on June 13, 2007

TO THE STOCKHOLDERS OF HARMONIC INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Harmonic Inc., a Delaware corporation (the Company), will be held on Wednesday, June 13, 2007 at 8:00 a.m., Pacific Time, at The Hyatt Regency Santa Clara Hotel, 5101 Great America Parkway, Santa Clara, California, 95054, for the following purposes:

1. To elect six directors to serve until the 2008 Annual Stockholders Meeting or until their successors are elected and duly qualified.

2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2007.

The foregoing items of business are more fully described in the Proxy Statement accompanying this notice.

Only stockholders of record at the close of business on April 16, 2007 are entitled to notice of and to vote at the meeting and any adjournment thereof.

All stockholders are cordially invited to attend the meeting in person. However, to ensure your representation at the meeting, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose or vote by telephone or by using the internet as instructed on the proxy card. Any stockholder of record attending the meeting may vote in person even if such stockholder has returned a proxy.

By Order of the Board of Directors,

Robin N. Dickson,
Secretary

Sunnyvale, California
April 30, 2007

YOUR VOTE IS IMPORTANT

In order to assure your representation at the meeting, you are requested to complete, sign and date the enclosed proxy as promptly as possible and return it in the enclosed envelope, or vote by telephone or by using the internet as instructed on the proxy card.

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HARMONIC INC.

549 Baltic Way

Sunnyvale, California 94089

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited on behalf of the Board of Directors of Harmonic Inc., a Delaware corporation (Harmonic or the Company), for use at the Annual Meeting of Stockholders (the Annual Meeting) to be held June 13, 2007 at 8:00 a.m., Pacific Time, or at any adjournments and postponements thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at The Hyatt Regency Santa Clara Hotel, 5101 Great America Parkway, Santa Clara, California, 95054. The telephone number of the Company s principal offices is (408) 542-2500.

These proxy materials and the Company s Annual Report to Stockholders for the year ended December 31, 2006, including financial statements, were first mailed on or about April 30, 2007 to all stockholders entitled to vote at the Annual Meeting.

Record Date and Voting Securities

Stockholders of record at the close of business on April 16, 2007 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. At the Record Date, 79,335,250 shares of the Company s common stock, $0.001 par value per share, were issued and outstanding.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use at the Annual Meeting by delivering to the Secretary of the Company at the Company s principal executive offices a written notice of revocation or a duly executed proxy bearing a later date, or by voting on a later date by telephone or via the Internet (only your latest-dated telephone or Internet proxy is counted), or by attending the Annual Meeting and voting in person.

Voting and Solicitation

Each stockholder is entitled to one vote for each share of the Company s common stock held as of the Record Date on all matters presented at the Annual Meeting. Stockholders do not have the right to cumulate their votes in the election of directors.

The Company will bear the cost of soliciting proxies, including the preparation, assembly, printing and mailing of this Proxy Statement, the proxy card and any other solicitation materials furnished to stockholders by the Company in connection with the Annual Meeting. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to

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such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone, telegram, facsimile or personal solicitation by directors, officers or employees of the Company. No additional compensation will be paid to such persons for such services.

Quorum; Abstentions; Broker Non-Votes

The required quorum for the transaction of business at the Annual Meeting is a majority of the votes eligible to be cast by holders of shares of the Company s common stock issued and outstanding on the Record Date. Shares eligible to vote at the Annual Meeting will be counted as present at the Annual Meeting if the holder of such shares is present and votes in person at the Annual Meeting or has properly submitted a proxy card or voted by telephone or via the Internet. Shares that are voted FOR, AGAINST, WITHHELD or ABSTAIN are treated as being present at the Ann Meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the Annual Meeting (the Votes Cast) with respect to such matter.

While there is no definitive statutory or case law authority in Delaware as to the proper treatment of abstentions, the Company believes that abstentions should be counted for purposes of determining both (i) the presence or absence of a quorum for the transaction of business and (ii) the total number of Votes Cast with respect to a proposal (other than the election of directors). In the absence of controlling precedent to the contrary, the Company intends to treat abstentions in this manner. Accordingly, abstentions on a given proposal will have the same effect as a vote against the proposal, but will not affect the election of directors.

The Delaware Supreme Court has held that, while broker non-votes should be counted for purposes of determining the presence or absence of a quorum for the transaction of business, broker non-votes should not be counted for purposes of determining the number of Votes Cast with respect to the particular proposal on which the broker has expressly not voted. The Company intends to treat broker non-votes in a similar manner. Thus, a broker non-vote will not affect the outcome of the voting on a proposal.

Stockholder Proposal Procedures and Deadlines

Proposals of stockholders of the Company that are intended to be presented by such stockholders at the Company s 2008 Annual Meeting and that stockholders desire to have included in the Company s proxy materials relating to such meeting must be received by Harmonic at its principal executive offices at 549 Baltic Way, Sunnyvale, California 94089 no later than January 2, 2008, which is 120 calendar days prior to the anniversary of the mailing date of this Proxy Statement, and must be in compliance with applicable laws and regulations in order to be considered for possible inclusion in the Proxy Statement and form of proxy for that meeting.

The Securities and Exchange Commission, or SEC, rules also establish a different deadline for submission of stockholder proposals that are not intended to be included in the Company s Proxy Statement with respect to discretionary voting. The discretionary vote deadline for the year 2008 Annual Meeting is March 16, 2008, 45 calendar days prior to the anniversary of the mailing date of this Proxy Statement. If a stockholder gives notice of such a proposal after the discretionary vote deadline, the Company s proxy holders will be allowed to use their discretionary voting authority to vote against the stockholder proposal when and if the proposal is raised at the Company s year 2008 Annual Meeting. The Company has not been notified by any stockholder of his or her intent to present a stockholder proposal from the floor at this year s Annual Meeting.

Furthermore, under the Company s bylaws, a stockholder s notice of business to be brought before an annual meeting must set forth, as to each proposed matter: a) a brief description of the business and reason for conducting such business at the meeting; b) the name and address as they appear on the Company s books of the stockholder; c) the class and number of shares of the Company owned by the stockholder; d) any material interest

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of the stockholder in such business; and e) any other information that may be required under Regulation 14A of the Securities and Exchange Act of 1934.

Multiple Stockholders Sharing One Address

In some instances, we may deliver to multiple stockholders sharing a common address only one copy of this proxy statement and its attachments. If requested orally or in writing, we will promptly provide a separate copy of the proxy statement and its attachments to a stockholder sharing an address with another stockholder. Requests should be directed to our Corporate Secretary to Harmonic Inc., Attention: Corporate Secretary, 549 Baltic Way, Sunnyvale, CA 94089, or to +1-408-542-2500. Stockholders sharing an address who currently receive multiple copies and wish to receive only a single copy should contact their broker or send a signed, written request to us at the address above.

PROPOSAL ONE

ELECTION OF DIRECTORS

Nominees

Prior to the Annual Meeting, the Company had a Board of seven directors. Michel L. Vaillaud, who is currently 75 years old, has decided not to stand for re-election. The Board has adopted a resolution, which will be effective as of the Annual Meeting, that reduces the size of the board of directors to six persons. Six directors are to be elected at the Annual Meeting. Each of the directors elected at the Annual Meeting will hold office until the Annual Meeting of Stockholders in 2008 or until such director s successor has been duly elected and qualified.

Unless otherwise instructed, the proxy holders identified on the enclosed proxy card will vote the proxies received by them for the Company s six nominees named below, all of whom are currently directors of the Company. Each of the nominees was recommended for election by the Company s Corporate Governance and Nominating Committee and the Board of Directors. The Company did not receive any proposals from stockholders for nominations of other candidates for election. In the event that any nominee of the Company becomes unable or declines to serve as a director at the time of the Annual Meeting, the proxy holders will vote the proxies for any substitute nominee who is designated by the Company s current Corporate Governance and Nominating Committee to fill the vacancy. It is not expected that any nominee listed below will be unable or will decline to serve as a director.

The names of the nominees for director and certain information about each of them are set forth below.

Name	Age	Principal Occupation
Anthony J. Ley	68	Chairman of the Board, former President and Chief Executive Officer, Harmonic Inc.
Patrick J. Harshman	42	President and Chief Executive Officer, Harmonic Inc.
E. Floyd Kvamme	69	Partner Emeritus, Kleiner Perkins Caufield & Byers
William F. Reddersen	59	Retired, former Executive Vice President, BellSouth
Lewis Solomon	73	Founder and Chairman of SCC Company
David R. Van Valkenburg	64	Chairman, Balfour Associates, Inc.

Except as indicated below, each nominee or incumbent director has been engaged in the principal occupation set forth above during the past five years. There are no family relationships between any directors or executive officers of the

Company.

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Anthony J. Ley has served as Harmonic s Chairman of the Board since February 1995 and has been a director since 1988. Previously Mr. Ley served also as President and Chief Executive Officer of Harmonic from November 1988 until May 4, 2006. From 1963 to 1987, Mr. Ley was employed at Schlumberger Limited both in Europe and the U.S., holding various senior business management and research and development positions, ultimately as Vice President, Research and Engineering at Fairchild Semiconductor/Schlumberger in Palo Alto, California. Mr. Ley holds an M.A. in mechanical sciences from the University of Cambridge and an S.M.E.E. from the Massachusetts Institute of Technology. He is also named as an inventor in 29 patents, is a Fellow of the I.E.E. (U.K.) and a Life Senior member of the I.E.E.E.

Patrick J. Harshman joined Harmonic in 1993 and was appointed President and Chief Executive Officer and elected as a director on May 4, 2006. From January 2006 to May 2006, Dr. Harshman was the Company s Executive Vice President, with responsibility for research and development, marketing, operations and technical services. He was President of the Broadband Access Networks Division from January 2001 until December 2005. Prior to January 2001, Dr. Harshman was Vice President of Marketing, responsible for Harmonic s digital video and fiber optic transmission product lines. Dr. Harshman received a Ph.D. in Electrical Engineering from the University of California, Berkeley, where his graduate research focused on nonlinear optical phenomena in optical communication systems. He also completed an Executive Management Program at Stanford University.

E. Floyd Kvamme has been a director of the Company since 1990. Since 1984, Mr. Kvamme has been a general partner and now serves as a partner emeritus of Kleiner Perkins Caufield & Byers, a venture capital firm. Mr. Kvamme is also a director of National Semiconductor Corporation and Power Integrations, Inc., as well as two private companies. Mr. Kvamme holds a B.S.E.E. from the University of California, Berkeley and an M.S.E. from Syracuse University.

William F. Reddersen has been a director of the Company since July 2002. Now retired, Mr. Reddersen spent 31 years at BellSouth and AT&T. From 1998 to 2000, Mr. Reddersen was Executive Vice President of Corporate Strategy at BellSouth, and from 1991 to 1998, he was responsible for BellSouth s broadband strategy and business market operations. Mr. Reddersen is a director of Otelco, a group of independent telephone operators, as well as several private companies. He holds a B.S. in Mathematics from the University of Maryland and an M.S. in Management from the Massachusetts Institute of Technology, where he was a Sloan fellow.

Lewis Solomon has been a director of the Company since January 2002. He is Founder and Chairman of SCC Company, a consulting firm specializing in technology. Mr. Solomon also co-founded and was Chief Executive Officer of Broadband Services, Inc. (BSI), an outsource provider of supply chain management, network planning, and fulfillment services from 1999 to 2004. From 1983 to 1988, he served as the Executive Vice President of Alan Patricof Associates, a global venture capital firm. Mr. Solomon also spent 14 years at General Instrument Corporation, ultimately as Senior Vice President and Assistant to the Chief Executive Officer. Mr. Solomon is a director of Anadigics Inc., Terayon Communication Systems, Inc. and several private companies.

David R. Van Valkenburg has been a director of the Company since October 2001. Mr. Van Valkenburg currently serves as Chairman of Balfour Associates, Inc., a firm providing counsel to chief executive officers, boards of directors and private equity funds and Chairman and President of privately-held Zero Point Corporation, a computer network engineering company. From 1995 to 2000, he was Executive Vice President of MediaOne Group, Inc. While at MediaOne Group, Mr. Van Valkenburg was seconded to Telewest Communications where he served as Chief Executive Officer and Chief Operating Officer from 1997 to 1999. He has also held the position of President at both Multivision Cable TV Corporation and Cox Cable Communications Inc. Mr. Van Valkenburg serves on the board of Moscow Cablecom Corporation, and several private companies. He holds a B.A. degree from Malone College, an M.S. degree from the University of Kansas, and an M.B.A. from Harvard University.

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Board Meetings and Committees

The Board of Directors of the Company held a total of eight meetings during the fiscal year ended December 31, 2006. No incumbent director attended fewer than 75% of the meetings of the Board of Directors or the committees upon which such director served during 2006.

The Board of Directors has determined that Messrs. Kvamme, Reddersen, Solomon and Van Valkenburg are independent and have no material relationship with the Company.

The Board of Directors has an Audit Committee, a Compensation and Equity Ownership Committee and a Corporate Governance and Nominating Committee. The charters for each of these committees are posted on our website at www.harmonicinc.com.

The Audit Committee currently consists of Messrs. Kvamme, Reddersen and Michel L. Vaillaud, a director not standing for re-election, each of whom is independent under Rule 10A-3 of the Securities Exchange Act of 1934 and under applicable NASDAQ Stock Market listing standards. The Audit Committee of the Board of Directors of Harmonic serves as the representative of the Board of Directors for general oversight of the quality and integrity of Harmonic s financial accounting and reporting process, system of internal control, audit process, and process for monitoring the compliance with related laws and regulations. The Audit Committee engages the Company s independent registered public accounting firm and approves the scope of both audit and non-audit services. Harmonic s management has primary responsibility for preparing financial statements and the financial reporting process. The Audit Committee held ten meetings during 2006.

The Company s Board of Directors has determined that Mr. Kvamme is an audit committee financial expert as defined by the current rules of the Securities and Exchange Commission. The Board of Directors believes that Mr. Kvamme s experience as general partner of a major venture capital firm since 1984 qualifies him as a audit committee financial expert because he has acquired relevant expertise and experience from the analysis and evaluation of financial statements of both public and private companies.

The Compensation and Equity Ownership Committee currently consists of Messrs. Van Valkenburg and Kvamme, neither of whom is an employee of the Company and each of whom is independent under applicable NASDAQ listing standards. The Compensation and Equity Ownership Committee is responsible for approval of the Company s compensation policies, compensation paid to executive officers, and administration of the Company s equity ownership plans. The Compensation and Equity Ownership Committee held two meetings during 2006. Matters within the scope of the Compensation and Equity Ownership Committee were also discussed in executive sessions at each board meeting. See Meetings of Non-Employee Directors.

The Corporate Governance and Nominating Committee serves as the representative of the Board of Directors for establishment and oversight of governance policy and the operation, composition and compensation of the Board of Directors. The Corporate Governance and Nominating Committee is composed of Messrs. Solomon and Van Valkenburg, both of whom are independent under applicable NASDAQ listing standards. The Corporate Governance and Nominating Committee held one meeting in 2006. Matters within the scope of the Corporate Governance and Nominating Committee were also discussed in executive sessions at each board meeting. See Meetings of Non-Employee Directors.

The Corporate Governance and Nominating Committee has proposed, and the Board of Directors has approved, the nomination of all six current board members for re-election by stockholders at this annual meeting. No candidates have been proposed for nomination by stockholders at this meeting or at any previous annual meeting.

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Identification and Evaluation of Candidates for Board Membership

Pursuant to the charter of the Corporate Governance and Nominating Committee, the Corporate Governance and Nominating Committee may utilize a variety of methods to identify and evaluate candidates for service on the Company s Board of Directors. Candidates may come to the attention of the Corporate Governance and Nominating Committee through current directors, management, professional search firms, stockholders or other persons. Any candidate presented would be evaluated at regular or special meetings of the Corporate Governance and Nominating Committee or at executive sessions at regular board meetings and may be considered at any point during the year. The Corporate Governance and Nominating Committee may take such measures that it considers appropriate in connection with its evaluation of a candidate, including candidate interviews, inquiry of the person recommending the candidate or reliance on the knowledge of the members of the Corporate Governance and Nominating Committee, the Board of Directors or management. The Corporate Governance and Nominating Committee has hired a consulting firm to assist it in identifying and screening potential candidates for election to the Board of Directors, in particular, to replace the position formerly held by Michel L. Vaillaud. In evaluating a candidate, the Corporate Governance and Nominating Committee may consider a variety of criteria. These criteria include demonstrated relevant business and industry experience, particular expertise to act as a committee chair or member, the ability to devote the necessary time to Board of Directors and committee service, personal character and integrity, and sound business judgment. The Corporate Governance and Nominating Committee has not set either term limits or age limits for members of the Board of Directors, believing that the Company s interests are best served by members of the Board of Directors with substantial experience and knowledge of the Company s business and that age is generally not a barrier to effective performance as a member of the Board of Directors.

Nomination Proposals from Stockholders

The Corporate Governance and Nominating Committee will consider proposals from stockholders for Board of Directors nominees at the 2008 Annual Meeting, provided that such proposals are submitted, in a timely manner in accordance with the Company s bylaws, as amended, in writing to the Secretary of the Company at 549 Baltic Way, Sunnyvale, CA 94089 for inclusion in the Company s proxy statement or consideration at the next annual meeting of stockholders. For stockholder nominations of persons for election to the Board of Directors of the Company at the 2008 Annual Stockholder Meeting, timely written notice of such nomination must be delivered to the Secretary of the Company one hundred twenty days (120 days) prior to the anniversary of the mailing of this proxy statement (i.e., January 2, 2008), which notice must contain (i) as to each person whom the stockholder proposes to nominate for election or re-election as a director (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the Company which are beneficially owned by such person, (D) a description of all arrangements and understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including without limitation such person s written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected) and (ii) as to such stockholder proposing a nominee for election to the Board of Directors of the Company, the information set forth in Stockholder Proposal Procedures and Deadlines for a stockholder notice of business to be brought before an annual meeting. In evaluating director candidates proposed by stockholders, the Corporate Governance and Nominating Committee will use the same criteria as it uses to evaluate all prospective members of the Board of Directors.

Meetings of Non-Employee Directors

At each board meeting, the non-employee directors meet in executive session without any management directors or employees present. The Chairman of the Corporate Governance and Nominating Committee, Mr. Solomon, has

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the responsibility of presiding over periodic executive sessions of the Board of Directors in which management directors and other members of management do not participate. Last year, the non-employee directors discussed corporate strategy, management and Board succession planning, and board policies, processes and practices in executive session.

Compensation of Directors

We use a combination of cash and equity-based incentive compensation. Directors who are employees of Harmonic do not receive additional compensation for their service as Directors.

Cash Compensation. Each non-employee director is paid an annual retainer of $20,000, plus $2,000 per board meeting attended and $1,000 per board committee meeting attended. Fees of $1,000 and $500, respectively, are paid for telephonic Board of Directors and committee meetings. In addition, the Chair of the Audit Committee receives an annual retainer of $7,500 and the Chairs of the Compensation and Equity Ownership Committee and the Corporate Governance and Nominating Committee each are paid a retainer of $4,000 per annum (but only one retainer will be paid if held by the same person). Maximum total cash compensation is capped at $35,000 per annum, excluding committee remuneration.

Equity Compensation. The 2002 Director Option Plan currently provides for grants of options to be made in two ways:

1. Each non-employee director is automatically granted an option to purchase 30,000 shares on the date on which such person first becomes a non-employee director, whether through election by our stockholders or by our Board of Directors to fill a vacancy, provided, however, that an employee director who ceases to be an employee director but who remains a director will not receive an option upon such occurrence; and

2. Each non-employee director is automatically granted an option to purchase 10,000 shares on the date of our annual stockholders meeting each year if on such dates he or she shall have served on our Board of Directors for at least the preceding six (6) months.

2006 Compensation of Directors

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(4)(5)	Total ($)
Anthony J. Ley(1)			
Patrick J. Harshman(2)			
E. Floyd Kvamme	47,500	23,526	71,026
William F. Reddersen	38,500	23,526	62,026
Lewis Solomon	37,000	23,526	60,526
Michel L. Vaillaud(3)	38,500	23,526	62,026
David R. Van Valkenburg	38,500	23,526	62,026

1. Compensation earned in 2006 by Mr. Ley for his service as CEO and subsequently as a consultant, is shown in the Summary Compensation Table on page 17. Mr. Ley received no compensation for his service as a director.

2. Compensation earned in 2006 by Dr. Harshman for his service as CEO is shown in the Summary Compensation table. Dr. Harshman received no compensation for his service as a director.

3. Mr. Vaillaud is not standing for re-election in 2007.

4. The amounts in this column represent amounts recognized for financial statement reporting purposes in 2006 in accordance with SFAS 123(R) and do not reflect actual amounts paid to or received by any director. These amounts are the accounting cost of options granted in 2005 and 2006. See Note 12 to our Consolidated Financial Statements contained in our Annual Report on Form 10-K for a discussion of the assumptions made in our valuation of equity awards.

5. Automatic option grants under our 2002 Director Plan were made on June 28, 2006 to each of the following directors: E. Floyd Kvamme, William F. Reddersen, Lewis Solomon, Michel L. Vaillaud and David Van Valkenburg. Each grant was for 10,000 shares at an exercise price of $3.97 with vesting over one year.

6. The following table provides the number of shares of Common Stock subject to outstanding options held at December 31, 2006.

Outstanding Equity Awards at December 31, 2006

Name	Number of Shares
Anthony J. Ley(1)	950,000
Patrick J. Harshman(2)	521,000
E. Floyd Kvamme	70,000
William F. Reddersen	70,000
Lewis Solomon	74,000
Michel L. Vaillaud	90,000
David R. Van Valkenburg	74,000

1. All options awarded to Mr. Ley were for services as CEO or consultant.

2. All options awarded to Dr. Harshman were for services as an employee. Dr. Harshman did not receive option grants for service as a director.

Communication with the Board of Directors

The Board of Directors believes that management should be the primary means of communication between the Company and all of its constituencies, including stockholders, customers, suppliers and employees. However, stockholders may communicate with individual members of the Board of Directors, committees of the Board of Directors, or the full Board of Directors by addressing correspondence to a board member s attention at 549 Baltic Way, Sunnyvale, CA, 94089.

Attendance of the Board of Directors at Annual Meetings

All members of the Board of Directors attended the 2006 Annual Meeting. The Board of Directors has a policy encouraging Board of Directors members to attend annual stockholder meetings and anticipates that certain board members will be present at the June 13, 2007 annual shareholder meeting.

Vote Required and Recommendation

The six nominees receiving the highest number of affirmative votes of the shares entitled to vote on this matter shall be elected as directors. Votes withheld from any director will be counted for purposes of determining the presence or absence of a quorum but are not counted as affirmative votes. A broker non-vote will be counted for purposes of determining the presence or absence of a quorum, but, under Delaware law and assuming that a quorum is obtained, a broker non-vote will not affect the outcome of the vote relating to election of directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING FOR EACH OF THE DIRECTOR NOMINEES SET FORTH ABOVE.

PROPOSAL TWO

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed PricewaterhouseCoopers LLP, independent registered public accounting firm, to audit the financial statements of the Company for the year ending December 31, 2007. PricewaterhouseCoopers LLP has served as the Company s independent registered public accounting firm since 1989 and has provided certain tax and other audit-related services. PricewaterhouseCoopers LLP has rotated Harmonic s audit partners in compliance with current SEC regulations.

Stockholder approval is not required for the appointment of PricewaterhouseCoopers LLP, since the Audit Committee of the Board of Directors has the responsibility for selecting an independent registered public accounting firm. However, the Board of Directors is submitting the selection of PricewaterhouseCoopers LLP to the stockholders for ratification as a matter of good corporate practice. In the event of a negative vote on the ratification of PricewaterhouseCoopers LLP, the Audit Committee of the Board of Directors may reconsider its selection. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they so desire. The representatives also are expected to be available to respond to appropriate questions from stockholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING FOR THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2007.

Independent Registered Public Accounting Firm

Aggregate fees for professional services rendered for the Company by PricewaterhouseCoopers LLP for the years ended December 31, 2006 and 2005 were:

	2006	2005
	(In thousands)	
Audit	$ 1,868	$ 1,966
Audit Related	34	477
Tax Fees	190	129
All Other	2	5
Total	$ 2,094	$ 2,577

Audit Fees

The audit fees for the years ended December 31, 2006 and 2005 were for professional services rendered for the audits of the consolidated financial statements of the Company and statutory and subsidiary audits, issuance of comfort letters, consents, and assistance with the review of documents filed with the SEC.

Audit Related Fees

The audit related fees for the years ended December 31, 2006 and 2005 were for due diligence assignments and consultations concerning financial accounting and reporting standards.

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Tax Fees

The tax compliance fees for the years ended December 31, 2006 and 2005 were for services related to tax due diligence assignments, the preparation of tax returns, discussions with tax authorities, claims for tax refunds, the establishment of foreign entities and for tax planning and tax advice, including consulting services related to indirect taxes and assistance with tax audits and appeals.

All Other Fees

All other fees for the years ended December 31, 2006 and 2005 were for tax seminars and license fees for various technical accounting reference software, respectively.

Consistent with its charter, our Audit Committee pre-approves all audit and non-audit services and did so in 2006. Pre-approval may be delegated to the Chairman.

The Audit Committee has considered whether the services provided by PricewaterhouseCoopers LLP are compatible with maintaining the independence of PricewaterhouseCoopers LLP and has concluded that the independence of PricewaterhouseCoopers LLP is maintained and is not compromised by the non-audit services provided.

The Audit Committee has engaged PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2007.

Report of the Audit Committee of the Board of Directors

In accordance with a written charter adopted by Harmonic s Board of Directors posted on the Company s website at www.harmonicinc.com, the Audit Committee of the Board of Directors of Harmonic serves as the representative of the Board of Directors for general oversight of the quality and integrity of Harmonic s financial accounting and reporting process, system of internal control, audit process, and process for monitoring compliance with related laws and regulations. The Audit Committee engages the Company s independent registered public accounting firm and approves the scope of both audit and non-audit services. Harmonic s management has primary responsibility for preparing financial statements and the financial reporting process.

Harmonic s independent registered public accounting firm, PricewaterhouseCoopers LLP, is responsible for expressing an opinion on the conformity of Harmonic s audited financial statements to generally accepted accounting principles.

The Audit Committee of the Board of Directors has:

1. Reviewed and discussed the audited consolidated financial statements and certifications thereof with Company management and the independent registered public accounting firm, and management has represented to the Audit Committee that Harmonic s consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States;

2. Discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement of Accounting Standards 61 (Communications with Audit Committees) and 100 (Interim Financial Information), as amended, including the quality and acceptability of Harmonic s financial reporting process and controls; and

3. Reviewed the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), discussed with

PricewaterhouseCoopers LLP its independence and also considered whether the provision of the non-audit services described below was compatible with maintaining their independence.

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The Audit Committee meets regularly with the Company s independent registered public accounting firm, with and without management present, to discuss the results of their examinations, the evaluations of the Company s internal controls and the overall quality of the Company s accounting principles.

In performing all of these functions, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of Harmonic s management which has primary responsibility for preparing financial statements and the financial reporting process and the independent registered public accounting firm, which, in their report, express an opinion on the conformity of Harmonic s annual consolidated financial statements to accounting principles generally accepted in the United States. In reliance on the reviews and discussions referred to in this report, and in light of its role and responsibilities, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements of Harmonic for the three years ended December 31, 2006 be included for filing with the Securities and Exchange Commission in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

The Audit Committee

E. Floyd Kvamme
William F. Reddersen
Michel L. Vaillaud

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation Discussion & Analysis

Role of the Compensation and Equity Ownership Committee

The Compensation and Equity Ownership Committee (Compensation Committee) of our Board of Directors is responsible for approval of the Company s executive compensation policies, compensation paid to executive officers, and administration of the Company s equity ownership plans. The Compensation Committee currently consists of Messrs. Van Valkenburg and Kvamme, neither of whom is an employee of the Company and each of whom is independent under applicable NASDAQ listing standards. The charter of the Compensation Committee was adopted by our Board and is posted on Harmonic s website at www.harmonicinc.com.

In 2005, the Compensation Committee retained the services of Meyercord Associates (Meyercord), an independent compensation consulting firm, to assist the Committee in the evaluation of appropriate cash and equity compensation for executive management. Meyercord makes recommendations on the design and implementation of compensation plans, reviews data and recommendations provided by management and Top Five Data Services (Top Five), an independent consultant retained by management, and also reviews specific compensation proposals for each Named Executive Officer (NEO). Our CEO, assisted by our Vice President of Human Resources, works with the Committee to establish meeting agendas. Our CEO makes recommendations to the Compensation Committee with respect to the compensation of other members of executive management and the design and implementation of incentive compensation programs for NEOs and other employees. The Compensation Committee considers recommendations from management but is not bound by these recommendations.

Compensation Philosophy and Programs

The Company s executive compensation programs are designed to attract, motivate and retain executives who will contribute significantly to the long-term success of the Company and the enhancement of stockholder value. Consistent with this philosophy, the following goals provide a framework for our executive compensation program:

- provide a competitive total compensation package to attract, retain and motivate executives who must operate in a demanding and rapidly changing business environment;
- relate total compensation for each executive to overall company performance as well as individual performance;
- reflect competitive market requirements and strategic business needs in determining the appropriate mix of cash and non-cash and short-term and long-term compensation;
- put at risk a significant portion of each executive s total target compensation, with the intent to reward superior performance; and
- align the interests of our executives with those of our stockholders.

Elements of Compensation

In order to achieve the above goals, our total compensation packages include base salary and annual bonus paid in cash, as well as long-term compensation in the form of stock options. We also provide benefit plans which are

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generally available to all regular full-time employees of Harmonic. We believe that appropriately balancing the total compensation package and ensuring the viability of each component of the package is necessary in order to provide market-competitive compensation. We focus on ensuring that the balance of the various components of our compensation program is optimized to motivate executives to improve our results on a cost-effective basis. The factors which are used to determine individual compensation packages are generally similar for each NEO, including our CEO.

Top Five surveys regularly for management the compensation practices of our peers in order to assess our competitiveness. Top Five gathers data from a peer group, established in consultation with management, which includes approximately twenty companies of a similar size and profile. The peer group consists of companies in the telecommunications equipment sector and other technology companies in the San Francisco Bay Area. Information from Top Five is used in formulating the CEO s recommendations to the Compensation Committee with respect to the design and implementation of compensation packages and for specific proposals related to the individual elements and total compensation packages for other NEOs, as well as for other employees. In order to independently evaluate the competitive position of the Company s compensation structure, the Compensation Committee in 2006 reviewed total compensation analyses prepared by Meyercord of a peer group of companies in the high-technology sector, the Company s industry and the Company s geographic location.

Base Salary

Base salary for NEOs, including that of the Chief Executive Officer, is set according to the responsibilities of the position, the specific skills and experience of the individual and the competitive market for executive talent. The Compensation Committee reviews salaries annually and adjusts them as appropriate to reflect changes in market conditions, individual performance and responsibilities, and the Company s financial position. The aggregate value of our total cash compensation (base salary and bonus) for executives is generally targeted at approximately the 50th percentile of executive compensation at comparable companies, with the intent that superior performance under incentive bonus plans would enable the executive to elevate his total cash compensation to levels that are above the average of comparable companies. Base salaries of executives in 2006 were not increased from 2005 (except for Dr. Harshman), principally due to the Company s net loss in 2005 and also because survey results indicated that total target cash compensation for NEOs was within the parameters set by the Compensation Committee. Dr. Harshman s salary was increased on January 1, 2006 as a result of his promotion to Executive Vice President, and was raised again on May 4, 2006, as a result of his promotion to CEO. The base salary and target bonus of Dr. Harshman was approved by the Compensation Committee with reference to the above factors and in consultation with Meyercord. Base salaries for NEOs are disclosed in the Summary Compensation Table on page 17.

Incentive Bonus Plan

The Company s annual incentive bonus plan reflects the Compensation Committee s belief that a meaningful component of executive compensation should be contingent on the performance of the Company. Because the Company had been unprofitable in 2005, the Compensation Committee took the position that a return to profitability was the most important financial objective in 2006. Consequently, the Company s incentive bonus plan for key employees was weighted 70% toward the attainment of a Company operating income target (defined to exclude certain items) and 30% toward the attainment of a revenue goal, with a target bonus established for each participant by reference to peer group data. The plan allowed for an adjustment of 10% of any bonus payable based upon the individual performance of each NEO. In addition, the plan had minimum thresholds for each component which had to be met in order for any payout to be made, and a cap of 200% of target bonus for any individual, including NEOs. Total payouts for all participants, including NEOs, from the plan were limited to 20% of operating income, as defined. In fiscal 2006, we partially met our goals established for both revenue and operating income. As a result, the incentive pool was funded at 57% of the total targeted amount. Bonus payments from the 2006 plan were approved by the

Compensation Committee and made to executive officer participants in February 2007, as disclosed in the Summary Compensation Table on page 17.

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Equity Compensation Plans

The Compensation Committee believes that equity compensation plans are an essential tool to link the long-term interests of stockholders and employees, especially the Chief Executive Officer and executive management, and serve to motivate executives to make decisions that will, in the long run, give the best returns to stockholders. Stock options are generally granted when an employee, including an NEO, joins the Company, and on an annual basis thereafter. These stock options typica