HARMONIC INC
Form 10-K
February 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2011

¨ **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 Market

Securities registered pursuant to Section 12(g) of the Act:

Preferred Share Purchase Rights

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

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** x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** x **No** ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). **Yes** x **No** ¨

Indicate by check mark 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. **Yes** ¨ **No** x

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

Large accelerated filer	x	**Accelerated filer**	¨
Non-accelerated filer	¨ **(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** x

Based on the closing sale price of the Common Stock on the NASDAQ Global Market on July 1, 2011, the aggregate market value of the voting Common Stock held by non-affiliates of the Registrant was approximately $783,166,000. 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 117,094,475 on February 10, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant s 2012 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, 2011) are incorporated by reference in Part III of this Annual Report on Form 10-K.

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HARMONIC INC.

FORM 10-K

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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 in the markets we address;

opportunities in the markets we address;

new and future products and services;

capital spending of our customers in 2012;

our strategic direction, future business plans and growth strategy;

industry and customer consolidation;

anticipated changes in economic conditions and the financial markets, and the potential impact on our business, results of operations, financial condition and cash flows;

the expected demand for and benefits of our products and services;

seasonality of revenue and concentration of revenue sources;

anticipated benefits of recent acquisitions;

potential future acquisitions;

statements regarding anticipated results of potential or actual litigation;

our competitive environment;

the impact of governmental regulation;

the impact of uncertain economic times and markets;

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 16 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 t Harmonic Inc. and its subsidiaries and its predecessors as a combined entity, except where the context requires otherwise.

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PART I

Item 1. ***BUSINESS***

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 services to consumer devices, including televisions, personal computers, tablets and mobile phones. Our revenue is derived from selling video processing and production and playout solutions and services to traditional video service providers, content owners, broadcasters and over-the-top, or OTT, video providers and selling network edge and access solutions and services to cable providers. Our products are deployed by thousands of media companies or video service providers, a growing portion of which are located outside the United States, from which we derived 55% of our revenue in 2011.

INDUSTRY OVERVIEW

Demand for Video Services

The delivery of television programming and Internet-based information and communication services to consumers is converging, driven by changes in consumer lifestyles, advances in technology and by changes in the regulatory and competitive environments. Viewers of video increasingly seek a more personalized and dynamic video experience that can be delivered to a variety of devices, ranging from widescreen high-definition and 3D televisions to mobile platforms, including smart phones and tablet computers. In part driven by the growth in video consumption devices, the demand for video content, including through Pay-TV, has also increased, putting pressure on content providers to cost-effectively produce more high-quality content and make it available on as many consumer platforms as possible. Today, there are a number of developing trends that impact the broadcasting and television business and the businesses of our customers who originate and deliver video programming. These trends distinctly impact both service providers and content providers in unique ways.

Service Provider Trends

Service providers face increasing competition for consumers of video content and are moving quickly to provide a more personalized, on-demand video experience to consumers. Consumers want to view video content at any time, from any location and on any device. Service providers face intense pressure to satisfy these demands, and they see a number of trends, including the following, driving their business:

On-Demand Services

The expanding use of digital video recorders and network-based video on demand, or VOD, services is leading to changes in the way subscribers watch television programming in the home. Subscribers are increasingly utilizing time-shifting technology. Further advances in technology are accelerating these trends, with cable, satellite and telecommunications (Telcos) operators announcing initiatives, often in conjunction with network broadcasters, to increasingly personalize subscribers video viewing experience. Those initiatives include the delivery of programming directly to broadband enabled TV sets, tablet computers and other mobile devices, in addition to conventional TV sets.

High-Definition Television

The increasing popularity of HDTV, 3D and home theater equipment is putting competitive pressure on broadcasters and Pay-TV providers to offer higher quality video signals for such high definition services, including initiatives to deliver video in ultra high resolution formats. At the end of 2011, leading operators in the U.S. were offering hundreds of national and local HD channels to their subscribers across the country and a similar trend is growing in international markets.

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The Internet and Other Video Distribution Methods

As a competitive response to alternative video distribution models by Hulu and Netflix, as well as traditional broadcasters making their content available on-line, traditional service providers are expanding their offering to allow their customers to stream video to a range of personal video devices. These new platforms with either fixed or mobile broadband connections are rapidly gaining popularity and poised to become a major factor in the future of video. We believe that the delivery of video over internet protocol will continue to change traditional video viewing habits and distribution methods and also potentially alter the traditional subscription business model of the major Pay-TV service providers.

Pay TV in Emerging Markets

With a rapidly growing middle class across emerging markets, the Pay-TV business is poised for rapid growth over the coming decade. Consumers who are entering the middle class are now able to afford a monthly video service to gain access to their favorite sports, news and movies. Considering the early stages of economic development in many of these regions, together with the sheer scale of the population, it is conceivable that the leading video service providers in these regions will grow and could become world leaders, and, as a result, the investments they will make in their infrastructure are likely to rapidly trend upward.

Branded Content

In an attempt to differentiate their products in the competitive market, traditional service providers are looking to enhance their offerings by creating and delivering their own branded content. This transition to branded content is being accomplished either by organic in-house development of new content or acquisition of existing and well established content brands. The historic demarcation point between traditional service providers (distributors) and content owners (creators) will continue to become blurry over time.

Content Provider Trends

As the number of video consumption platforms increase and service provider competition creates more opportunities to reach consumers, content providers are facing increasing demands for more content and in many more formats. The process of producing and preparing content for multi-screen delivery means that content providers must become more efficient to keep up with demand. At the same time, content providers realize that their ownership of content rights gives them market power, with many content providers now looking at launching their own content distribution initiatives to reach consumers directly. Impacting content providers are several important trends, including the following:

Demand for High-Quality HD Content

With service providers adding more HD channels and consumers viewing HD television content on ever-larger screens and home theater environments, the demand for more and higher-quality HD programming continues to escalate. From sports to news to episodic to movies, content providers face increasing pressure to deliver the highest quality HD programming across all types of platforms, driving an accelerating transition from standard definition to HD.

Content Format Proliferation

As service providers seek to 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. With the number of devices continuing to grow, the lack of consistent video standards means that content providers must reformat and package their content in dozens of different formats so that their content is viewable across all of these different devices.

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Fragmentation of Revenue Sources

As consumers divide their viewing across a wider range of devices, the revenues associated with content correspondingly are divided across all of the different viewing outlets. While total content revenues, either from advertising or subscription fees, may remain stable or even increase, the amount of total revenue available to support any particular format or viewing platform may decrease, causing content providers to become more efficient and cost-effective in the production and packaging of their content.

Move to File-Based Workflows

From newsrooms to Hollywood studios, there has been a growing shift from traditional tape-based acquisition and production to a more file-based workflow, where video content is captured, compressed, stored and edited as a file residing in a storage system. The move to video file-based production streamlines the production process because content can be more readily shared across multiple production applications and various media processing tasks can be performed on stored content in a faster-than-real-time manner.

These trends are driving content providers to invest in video file infrastructure that will help them produce more content, faster and more cost-effectively, with server and storage solutions that will enable them to provide content in the widest possible range of formats and at the highest possible quality.

Content Creation in Emerging Markets

With a rapidly growing middle class in emerging markets, media companies addressing these markets are aggressively investing in the creation of new content with the goal of creating strong brands and a growing loyal customer base. In addition, the sheer size of select emerging economies leads to regional content creation targeted towards localized subject matters and demands, also boosting the overall potential for rapid content creation growth.

Direct Access of Consumers

Content owners and media companies across the globe are experimenting with the notion of offering their content directly to the end consumer. Some of these efforts are in collaboration with their historic distribution partners (video service providers), such as HBO-GO, while others are in competition with those partners.

The Market Opportunity

Personalized video services, such as VOD, and the increasing amounts of high resolution content, as well as an expanding amount of over-the-top video services, pose challenges to both content producers and service providers. For content producers, the increase in high-quality video consumption across these new services requires high-performance, reliable video production, transcoding and playout infrastructure in order to support the increased workload. Existing tape-based operations are inadequate for keeping up with the fast-paced demands for new content, new channels and new formats for video content. File-based production storage, high-throughput media transformation and server-based playout enable content producers to meet these growing demands.

For service providers, providing access to all these new forms of content requires more sophisticated video processing capabilities and greater bandwidth to the home in order to deliver maximum choice and flexibility to the subscriber. In addition, the delivery of live television and downloadable content to broadband connected tablet and other mobile devices creates bandwidth constraints and network management challenges. The demand for more bandwidth-intensive video, voice and data content has strained existing communications networks, especially where video is received and processed, and in the last mile of the communications infrastructure, where homes connect to the local network. The upgrade and extension of existing processing capabilities and

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distribution networks, or the construction of completely new environments to facilitate the processing and delivery of high-speed broadband video, voice and data services, requires substantial expenditures and often the replacement of significant portions of the existing infrastructure. As a result, service providers are seeking solutions that maximize the efficiency of existing available bandwidth and cost-effectively manage and transport digital traffic within networks, while minimizing the need to construct new networks for the distribution of video, voice and data content.

Competition and Deregulation

Competition for traditional service providers in the cable and satellite markets has intensified as offerings from new entrants, such as telcos and OTT providers, are beginning to attract customers. This increasingly competitive environment may lead to higher capital spending by some of the market participants, particularly internationally, in an effort to deploy attractive service offerings, to capture and retain high revenue-generating subscribers, and to increase overall average revenue per user, or ARPU from the existing customer base. While global economic trends were volatile throughout 2011, particularly in Europe during the second half of the year, this competitive dynamic appears to be continuing.

Similar competitive factors and the continued liberalization of the regulatory environment in foreign countries have led to the establishment abroad of new or expanded businesses providing video services, either in distribution of content, creation of content or both. We believe this trend is likely to increase due to growing disposable incomes and favorable macro economic trends in some foreign countries.

Our Cable Market

To address increasing competition, reduce loss of customers, increase ARPU and differentiate themselves, cable operators have embarked on several initiatives to improve their product offerings:

- Continued introduction 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.
- Preliminary launches of video delivery over IP to broadband enabled consumer devices, such as phones, tablets and TV.
- Capacity enhancement of high-speed data services, using DOCSIS 3.0.
- Expansion of network capacity to support the growing number of services, including HDTV in foreign markets.
- Collaboration with content owners on offering access to on-line content for subscribers of premium content.

To support this rapid expansion of service offerings, cable operators are investing in digital video equipment that can receive, process and distribute content from a variety of sources to a growing number of consumer devices, video storage equipment and servers to ingest, store and intelligently distribute increasing amounts of content, complemented by edge devices capable of routing, multiplexing and modulating in order to deliver signals to individual subscribers over a hybrid fiber-coaxial, or HFC, network.

Our Satellite Market

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 high definition 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

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expanding ARPU. In parallel, satellite operators have began 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 much of these new services, satellite operators are considering an upgrade to their video infrastructure in order to provide a dual gain of bandwidth efficiency and operational optimization in an increasingly complex environment.

Internationally, and specifically in emerging markets, satellite operators have continued to enjoy substantial growth in their customer base, driven mainly by the 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 in an effort to leverage the growing customer base and increase overall revenue.

Our Telco Market

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 premium quality HD and 3D content, larger on-demand libraries, time-shift television services, bundled packages, multi-screen offerings to smart phones and tablets and branded mobile specific services. The last of these offerings is a key advantage they enjoy today, creating a clear differentiator in any-time, anywhere service offerings, as well as a rich library option for consumers looking to view content on the move.

Our Terrestrial Market

In the terrestrial broadcasting market, operators in many countries in Europe, Asia Pacific, Africa and South America are now required by regulation to convert from analog to digital transmission in order to free up broadcast spectrum. The conversion to digital transmission often provides the opportunity to deliver new channels, HD services, premium content and interactive services. 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.

Our Broadcast and Media Markets

Network broadcasters, programmers and content owners need to transmit live programming of news and sports to their studios, to subsequently broadcast their content, and to deliver their content to video 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. With our acquisition of Omneon in 2010, the broadcast and media market has grown to become our second largest market, representing over 30% of our revenue in 2011.

To successfully service consumers demands, media companies are expanding their offerings to support both a wide range of live/linear content, and to make the content available in an on-demand manner. As a result, their transition towards automated file based workflows have accelerated and, accordingly, so have their needs for media servers, video optimized storage and transformation video products. In addition, and in an effort to optimize their operations, distribution networks responsible for moving content to the service providers are being upgraded to handle larger volumes of content in more efficient formats and with greater flexibility.

Other Markets

We are addressing video processing and content creation opportunities with a variety of new video entrants, some of which distribute video via traditional television channels or over-the-top and many of which use both methods of distribution.

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Current Industry Conditions

Many of our customers, particularly those in foreign countries, appear to have increased their capital expenditures in 2011, compared to 2009 and 2010, and it is possible that the trends described in the previous sections above may continue to drive capital investments in 2012, particularly in emerging markets. We expect that capital spending by the majority of our international customers to continue at 2011 levels, or increase, in 2012, and that capital spending by our U.S. customers may remain flat in 2012. Nevertheless, the global economic instability that exists today, particularly in Europe, and the potential worldwide adverse impact of that instability pose a significant risk that such expectation will not be met, as such instability may result in a tougher economic environment for our customers to access credit and to broaden their capital investments.

PRODUCTS

Our products generally fall into three principal categories: video production platforms and playout solutions, video processing solutions and edge and access products. We also provide technical support services and professional services to our customers worldwide. Our video production platforms consist of video-optimized storage and content management applications that provide content companies with file-based infrastructure to support video content production activities, such as editing, post-production and finishing. Our playout solutions are based on scalable video servers used by content owners and multi-channel operators for assembly and playout of one or more television channels. Our video processing solutions, which include network management software and application software products, provide broadband operators 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. Many of our customers also use these products to organize, manage and distribute content in ways that maximize use of the available bandwidth. Our edge products enable cable operators to deliver customized broadcast or narrowcast on- demand and data services to their subscribers. Our access products, which consist mainly of optical transmission products, node platforms and return path products, allow cable operators to deliver video, data and voice services over their distribution networks.

Video Production Platforms and Playout Solutions

Video servers. The Spectrum and MediaDeck video server products are used by broadcasters, content owners and multi-channel network operators to create and play-to-air television channels. Our servers support both standard and high definition programming, as well as many different media formats, such as MPEG-2, DV and AVC-Intra, using both QuickTime and MXF media wrapper formats. Typically our customers use our servers to record incoming content from either live feeds or from tapes, encoding that content in real-time into standard media files that are 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.

Video-optimized storage. The Omneon 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.

Media Applications. Complementing our server and storage platforms, our Media Application Server or MAS, combined with a suite of integrated applications, including ProXplore, ProBrowse and ProXchange, provides a basic level of integrated media management and workflow control over content stored across our systems. For more complex media management, our underlying API, called Media Services Framework, allow both customers and other application developers to build advanced media management applications that can automate many media processing and movement tasks, collect and organize content metadata, and provide search and review functionality.

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Video Processing Solutions

Broadcast 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 standard and high definition formats in both MPEG-2, and the newer MPEG-4 AVC/H.264, or MPEG-4, video compression standards, for both televisions and new multi-screen formats targeted at smart phones, tablets and broadband connected TVs. Our Electra 9000 encoder supports all of these formats on the same hardware platform. Most of these encoders are used in real-time linear video applications, but they are also employed in conjunction with our software in encoding of video content and storage for later delivery as VOD and time-shifted services.

Contribution and distribution encoders. Our Ellipse encoders provide broadcasters with video compression solutions for on-the-spot news gathering, live sports coverage and other remote events. These products enable our customers to deliver these feeds to their studios for further processing. Broadcasters and other operators, such as teleports, also use these encoders for delivery of their programming to their customers, typically cable, telco and satellite operators.

Stream processing and statistical multiplexing solutions. Our ProStream platform and other stream processing products offer our customers a variety of capabilities that enable them to manage and organize digital streams in a format best suited to their particular delivery requirements and subscriber offerings. Our multi-function ProStream 1000 addresses multiplexing, encryption, ad insertion and other advanced processing requirements of MPEG video streams and can be integrated with our DiviTrackIP statistical multiplexer, which enhances the bandwidth efficiency of our encoders by allowing bandwidth to be dynamically allocated according to the complexity of the video content. DiviTrackIP also enables operators to combine inputs from different physical locations into a single multiplex.

Content preparation and delivery for multi-screen applications. We offer a variety of content preparation, storage and delivery software based solutions that enable high-quality broadcast and on-demand video services on any device (TV, PC or mobile). Our ProMedia family of products provide live-based transcoding, packaging and time-shifting, file-based transcoding and workflow management solutions to facilitate content preparation in any format. Our Omneon MediaGrid active storage system provides scalable, high performance network-attached storage to store growing libraries of content. Our multi-screen solutions are used for a variety of applications, including live streaming, VOD, catch-up TV, start-over TV, network PVR through HTTP streaming and multi-bitrate adaptive HTTP streaming.

Decoders and descramblers. We provide our ProView integrated receivers-decoders to 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 gives service providers the ability to control and visually monitor their digital video infrastructure at an aggregate level, rather than as just discrete pieces of hardware, thereby reducing their operational costs. Our NETWatch management system operates in broadband networks to capture measurement data and our software enables the broadband service operator to monitor and control the HFC transmission network from a master headend or remote locations. Our NMX Digital Service Manager and NETWatch software is designed to be integrated into larger network management systems through the use of simple network management protocol, or SNMP.

Edge and Access Products

Edge products. Our Narrowcast Services Gateway family, or NSG, is a fully integrated edge gateway that integrates 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

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10 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 the HFC network. Originally developed for VOD applications, our most recent NSG product, the high-density, multi-function NSG 9000, may also be used in switched digital video and modular Cable Modem Termination Systems, or M-CMTS, applications, as well as large-scale VOD deployments.

Optical transmitters and amplifiers. Our family of optical transmitters and amplifiers operates at various optical wavelengths and serves both long-haul and local transport applications in the cable distribution network. The PWRLink series provides optical transmission primarily at a headend or hub for local distribution to optical nodes and for narrowcasting, which is the transmission of programming to a select set of subscribers. Our METROLink Dense Wave Division Multiplexing, or DWDM, system allows operators to expand the capacity of a single strand of fiber and to provide narrowcast services directly from the headend to nodes. We also offer SupraLink, a transmitter that allows deeper deployment of optical nodes in the network and minimizes the significant capital and labor expense associated with deploying additional optical fiber.

Optical nodes and return path equipment. Our family of PWRBlazer optical nodes supports network architectures that meet the varying demands for bandwidth delivered to a service area. By the addition of modules providing functions such as return path transmission and DWDM, our configurable nodes are easily segmented to handle increasing two-way traffic over a fiber network without major reconstruction or replacement of our customers networks. Our return path transmitters support two-way transmission capabilities by sending video, voice and data signals from the optical node back to the headend. These transmitters are available for either analog or digital transport.

Technical Support and Professional Services

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, parts inventory management, 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/distributor customers, based, in part, on revenue during 2011.

United States	**International**
Cablevision Systems	Alcatel Lucent
Charter Communications	Bell Expressvu
Comcast Cable	Capella Telecommunications
Cox Communications	Huawei Technologies
CNN	Impex Technologies
HBO	Klonex -VCS
DirecTV	Laufen International
EchoStar Holding	Netorium
Time Warner Cable	Virgin Media

Historically, a majority 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. However, in

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the last few years, revenue from our ten largest customers has decreased as a percentage of revenue, due to our growing customer base, in part as a result of the acquisition of Scopus and Omneon. Sales to our ten largest customers in 2011, 2010 and 2009 accounted for approximately 35%, 44% and 47% of 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 2011, 2010 and 2009, revenue from Comcast accounted for 11%, 17% and 16%, 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, including, from time to time, projects in which we act much like a systems integrator. A decrease in the number of the 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. we sell our products through our own direct sales force, as well as through independent distributors and integrators. Our direct sales team is organized geographically and by major customers and markets to support customer requirements. We sell to international customers through our own direct sales force, as well as through independent distributors and integrators. 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. International distributors are generally responsible for importing our products and providing certain installation, technical support and other services to customers in their territory. Our direct sales force and distributors are supported by a highly trained technical staff, which includes application engineers who work closely with operators to develop technical proposals and design systems to optimize system performance and economic benefits to operators. Technical support provides a customized set of services, as required, for ongoing maintenance, support-on-demand and training for our customers and distributors, both in our facilities and on-site.

Our marketing 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 marketing organization is also responsible for setting price levels, demand forecasting and general support of the sales force, particularly at major accounts. 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 use third party contract manufacturers extensively to assemble our products and a substantial majority of subassemblies and modules for our products. Our reliance on subcontractors involves several risks, and we may not be able to obtain an adequate supply of components, subassemblies, modules and turnkey systems on a timely basis. In 2003, we entered into an agreement with Plexus Services Corp. to act as our primary contract manufacturer. Plexus currently provides us with a majority, by dollar amount, of the products we purchase from our contract manufacturers. This agreement has automatic annual renewals, unless prior notice is given, and has been automatically renewed until October 2012. We do not generally maintain long-term agreements with any of our contract manufacturers.

Our internal manufacturing operations consist primarily of final assembly and testing of fiber optic systems. These processes are performed by highly trained personnel, employing technologically advanced electronic equipment and proprietary test programs. The manufacturing of our products and subassemblies is a complex process, and we cannot be sure that we will not experience production problems or manufacturing delays in the

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future. Because we utilize our own manufacturing facilities for the final assembly and test of our fiber optic systems, and because such manufacturing capabilities are not readily available from third parties, any interruption in our manufacturing operations could materially and adversely affect our business, operating results, financial position and cash flows.

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 are dependent on one company for certain video encoding chips which are incorporated into several of our products. Our reliance on sole or limited suppliers, particularly foreign suppliers, involves several risks, including a potential inability to obtain an adequate supply of required components, subassemblies or modules and reduced control over pricing, quality and timely delivery of components, subassemblies or modules for a number of reasons, including as a result of the impact of natural disasters on those suppliers. In particular, certain components have in the past been in short supply and are available only from a small number of suppliers or from sole source 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.

Managing our supplier relationships is particularly difficult during time periods in which we introduce new products or in which demand for our products is increasing, especially if demand increases more quickly than we expect. An inability to obtain adequate and timely deliveries, or any other circumstance that would require us to seek alternative sources of supply, could affect our ability to ship our products on a timely basis, which could damage relationships with current and prospective customers and harm our business. We attempt to limit this risk by maintaining inventories of certain components, subassemblies and modules and through our demand order fulfillment system. As a result of this investment in inventories, we have in the past been, and in the future may be, subject to a risk of excess and obsolete inventories, which could adversely affect our business and operating results.

INTELLECTUAL PROPERTY

As of December 31, 2011, we held 57 issued U.S. patents and 19 issued foreign patents and had a number of 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. For example, in October 2011, Avid Technologies, Inc. sued us for patent infringement, alleging that our Omneon MediaGrid product infringes two patents held by Avid. 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 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, 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

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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.

The markets we address are 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, as well as an increasing number of companies whose principal business is the ownership and exploitation of patents, have extensive patent portfolios. From time to time, third parties, including certain of these companies, have asserted, and may in the future assert, exclusive patent, copyright, trademark and other intellectual property rights against us or our customers. There can be no assurance that we will be able to defend against any claim that we are infringing upon their intellectual property rights, that the terms of any license offered by any person asserting such rights would be acceptable to us or our customers, or that failure to obtain a license or the costs associated with any license would not materially and adversely affect our business, operating results, financial position and cash flows.

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 twelve months, as well as deferred revenue that is expected to be recognized within the succeeding twelve months. At December 31, 2011, backlog, including deferred revenue, was $125 million, compared to $121.9 million at December 31, 2010. The increase in backlog at December 31, 2011, from December 31, 2010, was due to an increase in orders received under which product shipments had not been made. 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, our backlog at December 31, 2011, or any other date, is not necessarily indicative of actual sales 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 performance, reliability, price, breadth of product offerings, network management capabilities, sales and distribution capabilities, technical support and service, and relationships with network operators. We believe that we compete favorably in each of these categories. Our competitors in digital video solutions include vertically integrated system suppliers, such as Motorola, Cisco Systems, Ericsson and Thomson Video Networks, and, in certain product lines, a number of smaller companies, including Envivio, RGB and Elemental. In production and playout products, competitors include Harris, Grass Valley, Miranda and Avid. In edge devices and fiber optic access products, competitors include Motorola, Cisco Systems, Aurora and Arris.

Consolidation in the industry has led to the acquisition of several of our historic competitor companies. For example, Scientific Atlanta, Tandberg Television, and BigBand Networks and C-Cor were acquired by Cisco Systems, Ericsson and Arris, respectively. Consequently, most of our principal competitors are substantially larger and have greater financial, technical, marketing and other resources than we have. Many of these larger organizations are in a better position to withstand any significant reduction in capital spending by customers in these markets and are often more capable of engaging in price-based competition for sales of products. They often have broader product lines and market focus, and, therefore, will not be as susceptible to downturns in a particular market. In addition, many of our competitors have been in operation longer than we have and have more long-standing and established relationships with domestic and foreign customers. Further, a few of our competitors offer long-term lease financing to customers for products competitive with ours. We may not be able to compete successfully in the future and competition may harm our business, operating results, financial position and cash flows.

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If any of our competitors products or technologies were to become the industry standard, our business could be seriously harmed. In addition, companies that have historically not had a large presence in the broadband communications equipment market have expanded their market presence through mergers and acquisitions. Further, our competitors may bundle their products or incorporate functionality into existing products in a manner that discourages users from purchasing our products or which may require us to lower our selling prices, which could adversely affect our revenue and result in lower gross margins.

RESEARCH AND DEVELOPMENT

We have historically devoted a significant amount of our resources to research and development. Research and development expenses in 2011, 2010, and 2009 were $102.7 million, $77.2 million and $61.4 million, respectively. Our research and development activities are conducted primarily in the United States (California, Oregon, New York and New Jersey), Israel and Hong Kong.

Our research and development program is primarily focused on developing new products and systems, and adding new features 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 video processing solutions, including enhanced video compression and multi-screen solutions. We also devote significant resources to production and playout and distribution solutions. Other research and development efforts are devoted to edge QAM devices for both video and data, and broadband optical products that enable the transmission of video over fiber optic networks.

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 implementation of 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, 2011, we employed a total of 1,145 people, including 446 in research and development, 211 in sales, 163 in service and support, 169 in operations, 59 in marketing (corporate and product), and 97 in a general and administrative capacity. There were 694 employees in the U.S. and 451 employees in foreign countries located in South America, the Middle East, Europe, and Asia. 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 by Harmonic. We have not experienced any work stoppages, and we consider our relations with our employees to be good. Our future success will depend, in part, upon our ability to attract and retain qualified personnel. Competition for qualified personnel in the broadband communications industry and in the geographic areas where our primary operations are located remains strong, particularly for highly qualified technical personnel, and we cannot assure you that we will be successful in retaining our key employees or that we will be able to attract the key employees or highly qualified technical personnel we may require in the future.

ABOUT HARMONIC

Harmonic was initially incorporated in California in June 1988 and reincorporated into Delaware in May 1995.

In March 2009, we completed the acquisition of Scopus Video Networks, Ltd. The acquisition of Scopus was intended to strengthen our position in international video broadcast and contribution and distribution

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markets. Scopus provides complementary video processing technology, expanded research and development capability and additional sales and distribution channels, particularly in emerging markets.

In September 2010, we completed the acquisition of Omneon, Inc., a private, venture-backed company specializing in file-based infrastructure for the production, preparation and playout of video content typically deployed by broadcasters, satellite operators, content owners and other media companies. The acquisition of Omneon is complementary to our core business, expanding our customer reach into content providers and extending our product lines into video servers and video-optimized storage for content production and playout.

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.

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 sales to cable television operators, satellite and telco operators and broadcast and media companies, as well as, more recently, emerging streaming media providers. 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 these markets for the purpose of creating, expanding or upgrading their systems.

These capital spending patterns are dependent on a variety of factors, including:

- impact of general economic conditions, actual and projected;
- access to financing;
- annual capital spending budget cycles of each of the industries we serve;
- impact of industry consolidation;
- federal, local and foreign government regulation of telecommunications, television broadcasting and streaming media;

	Chartered-in under operating lease Days	-		32
Available Days	4,030		4,094	
Operating Days	3,992		4,041	
Fleet Utilization	99.1	%	98.7	%

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2013	December 31, 2012
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 19,270,813	$ 18,119,968
Accounts receivable, net	10,755,027	9,303,958
Prepaid expenses	4,255,287	3,544,810
Inventories	12,719,310	12,083,125
Investment and other current asset	6,267,836	197,509
Fair value above contract value of time charters acquired	—	549,965
Total current assets	53,268,273	43,799,335
Noncurrent assets:		
Vessels and vessel improvements, at cost, net of accumulated depreciation of $333,169,297 and $314,700,681, respectively	1,695,889,031	1,714,307,653
Other fixed assets, net of accumulated amortization of $595,242 and $515,896, respectively	401,242	447,716
Restricted cash	276,056	276,056
Deferred drydock costs	2,392,520	2,132,379
Deferred financing costs	23,036,131	25,095,469
Fair value above contract value of time charters acquired	—	2,491,530
Other assets	1,318,333	594,012
Total noncurrent assets	1,723,313,313	1,745,344,815
Total assets	$ 1,776,581,586	$ 1,789,144,150
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,142,372	$ 10,235,007
Accrued interest	1,047,546	2,430,751
Other accrued liabilities	10,868,808	14,330,141
Deferred revenue and fair value below contract value of time charters acquired	—	3,237,694
Unearned charter hire revenue	3,948,943	3,755,166
Total current liabilities	24,007,669	33,988,759
Noncurrent liabilities:		
Long-term debt	1,129,478,741	1,129,478,741
Payment-in-kind loans	22,561,496	15,387,468
Deferred revenue and fair value below contract value of time charters acquired	—	13,850,772
Fair value of derivative instruments	1,420,611	2,243,833
Total noncurrent liabilities	1,153,460,848	1,160,960,814
Total liabilities	1,177,468,517	1,194,949,573
Commitment and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, none issued	—	—
	166,378	166,378

Common stock, $.01 par value, 100,000,000 shares authorized, 16,638,092 and 16,638,092 shares issued and outstanding, respectively		
Additional paid-in capital	764,268,421	762,313,030
Retained earnings (net of historical dividends declared of $262,118,388)	(163,901,119)	(165,275,389)
Accumulated other comprehensive loss	(1,420,611)	(3,009,442)
Total stockholders' equity	599,113,069	594,194,577
Total liabilities and stockholders' equity	$ 1,776,581,586	$ 1,789,144,150

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended	
	March 31, 2013	March 31, 2012
Cash flows from operating activities:		
Net income (loss)	$1,374,270	$(17,433,529)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Items included in net income (loss) not affecting cash flows:		
Depreciation	18,515,090	18,728,907
Amortization of deferred drydocking costs	421,487	704,450
Amortization of deferred financing costs	2,075,338	1,135,491
Amortization of fair value below contract value of time charter acquired	(10,280,559)	(1,228,764)
Payment-in-kind interest on debt	7,174,028	—
Unrealized gain from forward freight agreements, net	—	(142,560)
Investment and other current asset	(4,925,953)	—
Realized loss from investment	2,952,927	—
Gain on time charter agreement termination	(3,331,692)	—
Allowance for accounts receivable	—	3,438,145
Non-cash compensation expense	1,955,391	2,082,025
Drydocking expenditures	(681,628)	(527,465)
Changes in operating assets and liabilities:		
Accounts receivable	(1,451,069)	(2,444,647)
Other assets	(724,321)	436,455
Prepaid expenses	(710,477)	565,346
Inventories	(636,185)	(533,862)
Accounts payable	(2,092,635)	(138,469)
Accrued interest	(1,383,205)	(580,140)
Accrued expenses	(3,429,333)	902,638
Deferred revenue	(3,766,412)	(124,548)
Unearned revenue	193,777	(2,186,060)
Net cash provided by operating activities	1,248,839	2,653,413
Cash flows from investing activities:		
Vessels and vessel improvements and advances for vessel construction	(49,994)	(54,659)
Purchase of other fixed assets	—	(1,303)
Changes in restricted cash	—	394,362
Net cash (used in) provided by investing activities	(49,994)	338,400
Cash flows from financing activities:		
Deferred financing costs	(48,000)	—
Net cash used in financing activities	(48,000)	—
Net increase in cash	1,150,845	2,991,813
Cash at beginning of period	18,119,968	25,075,203

Cash at end of period	$19,270,813	$28,067,016

We have employed all of our vessels in our operating fleet on time and voyage charters. The following table represents certain information about our revenue earning charters with respect to our operating fleet as of March 31, 2013:

Vessel	Year Built	Dwt	Charter Expiration (1)	Daily Charter Hire Rate
Avocet	2010	53,462	Apr 2013	Voyage(2)
Bittern	2009	57,809	May 2013	$ 8,150
Canary	2009	57,809	Apr 2013	$ 7,100 (2)
Cardinal	2004	55,362	May 2013	$ 8,000
Condor	2001	50,296	Apr 2013	$ 4,700(2)
Crane	2010	57,809	Apr 2013	$ 7,500(2)
Crested Eagle	2009	55,989	May 2013	$ 11,000
Crowned Eagle	2008	55,940	-	Spot
Egret Bulker	2010	57,809	July 2013	$ 10,250
Falcon	2001	50,296	May 2013	$ 7,200
Gannet Bulker	2010	57,809	Apr 2013	$ 10,000(2)
Golden Eagle	2010	55,989	May 2013	$ 12,400
Goldeneye	2002	52,421	May 2013	Index(3)
Grebe Bulker	2010	57,809	Apr 2013	$ 15,000(2)
Harrier	2001	50,296	May 2013	$ 10,000
Hawk I	2001	50,296	Apr 2013	Voyage(2)
Ibis Bulker	2010	57,775	Jun 2013	$ 8,900
Imperial Eagle	2010	55,989	Apr 2013	$ 11,150(2)
Jaeger	2004	52,248	Apr 2013	$ 13,000(2)
Jay	2010	57,802	Apr 2013	Voyage(2)
Kestrel I	2004	50,326	Apr 2013	$ 9,500(2)
Kingfisher	2010	57,776	Apr 2013	Voyage(2)
Kite	1997	47,195	Apr 2013	Voyage(2)
Kittiwake	2002	53,146	Aug 2013	$ 9,500
Martin	2010	57,809	Apr 2013	Voyage(2)
Merlin	2001	50,296	Apr 2013	$ 10,000(2)
Nighthawk	2011	57,809	May 2013	$ 8,350
Oriole	2011	57,809	Apr 2013	$ 7,000(2)
Osprey I	2002	50,206	Apr 2013	$ 8,000(2)
Owl	2011	57,809	Apr 2013	$ 12,500(2)
Peregrine	2001	50,913	Jun 2013	$ 8,250
Petrel Bulker	2011	57,809	May 2014 to Sep 2014	$17,650(4) (with 50% profit share over $20,000)
Puffin Bulker	2011	57,809	May 2014 to Sep 2014	$17,650(4) (with 50% profit share over $20,000)
Redwing	2007	53,411	Apr 2013	$ 9,800(2)
Roadrunner Bulker	2011	57,809	Aug 2014 to Dec 2014	$17,650(4) (with 50% profit share over $20,000)
Sandpiper Bulker	2011	57,809	Aug 2014 to Dec 2014	$17,650(4) (with 50% profit share over $20,000)
Shrike	2003	53,343	Apr 2013	Voyage(2)
Skua	2003	53,350	Apr 2013	$ 4,500(2)

Sparrow	2000	48,225	Jun 2013	$	8,400
Stellar Eagle	2009	55,989	Nov 2013		Index(3)
Tern	2003	50,200	Apr 2013	$	12,000(2)
Thrasher	2010	53,360	May 2013	$	12,500
Thrush	2011	53,297	Apr 2013	$	13,000(2)
Woodstar	2008	53,390	-		Spot(2)
Wren	2008	53,349	Apr 2013	$	10,500(2)

(1) The date range provided represents the earliest and latest date on which the charterer may redeliver the vessel to the Company upon the termination of the charter. The time charter hire rates presented are gross daily charter rates before brokerage commissions, ranging from 0.625% to 5.00%, to third party ship brokers.
(2) Upon conclusion of the previous charter the vessel will commence a short term charter for up to six months.
(3) Index, an average of the trailing Baltic Supramax Index.
(4) The charterer has an option to extend the charter by two periods of 11 to 13 months each.

Glossary of Terms:

Ownership days: The Company defines ownership days as the aggregate number of days in a period during which each vessel in its fleet has been owned. Ownership days are an indicator of the size of the fleet over a period and affect both the amount of revenues and the amount of expenses that is recorded during a period.

Chartered-in under operating lease days: The Company defines chartered-in under operating lease days as the aggregate number of days in a period during which the Company chartered-in vessels.

Available days: The Company defines available days as the number of ownership days less the aggregate number of days that its vessels are off-hire due to vessel familiarization upon acquisition, scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

Operating days: The Company defines operating days as the number of its available days in a period less the aggregate number of days that the vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

Fleet utilization: The Company calculates fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning. Our fleet continues to perform at very high utilization rates.

Conference CallInformation

Members of Eagle Bulk's senior management team will host a teleconference and webcast at 8:30 a.m. ET on Thursday, May 16th to discuss the results.

To participate in the teleconference, investors and analysts are invited to call 866-510-0707 in the U.S., or 617-597-5376 outside of the U.S., and reference participant code 49839481. A simultaneous webcast of the call, including a slide presentation for interested investors and others, may be accessed by visiting http://www.eagleships.com.

A replay will be available following the call until 11:59 PM ET on May 23, 2013. To access the replay, call 888-286-8010 in the U.S., or 617-801-6888 outside of the U.S., and reference passcode 43657265.

About Eagle Bulk Shipping Inc.

Eagle Bulk Shipping Inc. is a Marshall Islands corporation headquartered in New York. The Company is a leading global owner of Supramax dry bulk vessels that range in size from 50,000 to 60,000 deadweight tons and transport a broad range of major and minor bulk cargoes, including iron ore, coal, grain, cement and fertilizer, along worldwide shipping routes.

Forward-Looking Statements

Matters discussed in this release may constitute forward-looking statements. Forward-looking statements reflect our current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

The forward-looking statements in this release are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although Eagle Bulk Shipping Inc. believes that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, Eagle Bulk Shipping Inc. cannot assure you that it will achieve or accomplish these expectations, beliefs or projections.

Important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies and currencies, general market conditions, including changes in charter hire rates and vessel values, changes in demand that may affect attitudes of time charterers to scheduled and unscheduled drydocking, changes in our vessel operating expenses, including dry-docking and insurance costs, or actions taken by regulatory authorities, potential liability from future litigation, domestic and international political conditions, potential disruption of shipping routes due to accidents and political events or acts by terrorists.

Risks and uncertainties are further described in reports filed by Eagle Bulk Shipping Inc. with the US Securities and Exchange Commission.

Visit our website at www.eagleships.com

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Exhibit 99.2