HARMONIC INC
Form 10-Q
November 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended September 28, 2012

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File No. 000-25826

HARMONIC INC.

(Exact name of registrant as specified in its charter)

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

4300 North First Street

San Jose, CA 95134

(408) 542-2500

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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

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

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

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

The number of shares of the registrant s Common Stock, $.001 par value, outstanding on October 22, 2012 was 115,780,770.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARMONIC INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	September 28, 2012	December 31, 2011
	(In thousands, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 103,235	$ 90,983
Short-term investments	88,747	70,854
Accounts receivable, net	94,638	109,886
Inventories	68,269	70,649
Deferred income taxes	29,897	28,032
Prepaid expenses and other current assets	19,178	21,474
Total current assets	403,964	391,878
Property and equipment, net	39,121	40,469
Goodwill	212,523	212,417
Intangibles, net	65,647	87,651
Other assets	2,245	1,751
Total assets	$ 723,500	$ 734,166
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 30,915	$ 30,537
Income taxes payable	1,122	2,290
Deferred revenue	34,660	33,095
Accrued liabilities	39,922	46,896
Total current liabilities	106,619	112,818
Income taxes payable, long-term	46,972	47,307
Deferred income taxes, long-term	4,148	655
Other non-current liabilities	12,453	9,070
Total liabilities	170,192	169,850
Commitments and contingencies (Note 13)		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000 shares authorized; no shares issued or outstanding		
Common stock, $0.001 par value, 150,000 shares authorized; 115,732 and 116,257 shares issued and outstanding at September 28, 2012 and December 31, 2011, respectively	116	116
Capital in excess of par value	2,437,539	2,433,164
Accumulated deficit	(1,883,830)	(1,868,089)
Accumulated other comprehensive loss	(517)	(875)

Total stockholders equity		553,308		564,316
Total liabilities and stockholders equity	$	723,500	$	734,166

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

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HARMONIC INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three months ended		Nine months ended	
	September 28, 2012	**September 30, 2011**	**September 28, 2012**	**September 30, 2011**
	(In thousands, except per share amounts)			
Product revenue	$ 113,769	$ 121,954	$ 337,691	$ 354,977
Service revenue	22,913	16,917	59,346	50,725
Net revenue	136,682	138,871	397,037	405,702
Product cost of revenue	64,927	64,954	193,503	190,188
Service cost of revenue	11,851	9,956	32,390	27,870
Total cost of revenue	76,778	74,910	225,893	218,058
Gross profit	59,904	63,961	171,144	187,644
Operating expenses:				
Research and development	26,524	25,638	79,994	77,449
Selling, general and administrative	32,150	32,254	96,603	98,361
Amortization of intangibles	2,179	2,229	6,548	6,688
Total operating expenses	60,853	60,121	183,145	182,498
Income (loss) from operations	(949)	3,840	(12,001)	5,146
Interest income, net	128	90	363	256
Other income (expense), net	(164)	381	119	(25)
Income (loss) before income taxes	(985)	4,311	(11,519)	5,377
Provision for income taxes	7,245	765	4,222	925
Net income (loss)	$ (8,230)	$ 3,546	$ (15,741)	$ 4,452
Net income (loss) per share:				
Basic	$ (0.07)	$ 0.03	$ (0.13)	$ 0.04
Diluted	$ (0.07)	$ 0.03	$ (0.13)	$ 0.04
Weighted average shares:				
Basic	116,517	115,791	116,946	114,855
Diluted	116,517	116,208	116,946	116,005

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

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HARMONIC INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three months ended		Nine months ended	
	September 28, 2012	**September 30, 2011**	**September 28, 2012**	**September 30, 2011**
	(In thousands)			
Net income (loss)	$ (8,230)	$ 3,546	$ (15,741)	$ 4,452
Change in unrealized gain (loss) on investments, net	1	(10)	40	(13)
Foreign currency translation	404	(444)	318	79
Total comprehensive income (loss)	$ (7,825)	$ 3,092	$ (15,383)	$ 4,518

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

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HARMONIC INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine months ended September 28, 2012	Nine months ended September 30, 2011
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (15,741)	$ 4,452
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of intangibles	22,004	22,767
Depreciation	11,337	10,306
Stock-based compensation	14,122	16,099
Net loss (gain) on disposal of fixed assets	(57)	450
Deferred income taxes	1,627	(2,218)
Provision for inventories	2,466	2,757
Allowance for doubtful accounts, returns and discounts	216	2,646
Other non-cash adjustments, net	617	564
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	15,036	(17,429)
Inventories	(85)	(9,914)
Prepaid expenses and other assets	1,847	7,176
Accounts payable	364	5,117
Deferred revenue	3,307	(9,610)
Income taxes payable	(1,482)	(5,927)
Accrued and other liabilities	(5,352)	(6,847)
Net cash provided by operating activities	50,226	20,389
Cash flows from investing activities:		
Purchases of investments	(94,123)	(76,164)
Proceeds from maturities of investments	44,876	15,522
Proceeds from sales of investments	30,486	18,248
Acquisition of property and equipment	(9,850)	(12,373)
Other acquisitions		(250)
Net cash used in investing activities	(28,611)	(55,017)
Cash flows from financing activities:		
Payments for repurchase of common stock	(14,388)	
Proceeds from issuance of common stock, net	4,922	13,301
Net cash provided by (used in) financing activities	(9,466)	13,301
Effect of exchange rate changes on cash and cash equivalents	103	29
Net increase (decrease) in cash and cash equivalents	12,252	(21,298)
Cash and cash equivalents at beginning of period	90,983	96,533
Cash and cash equivalents at end of period	$ 103,235	$ 75,235

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

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HARMONIC INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) which Harmonic Inc. (Harmonic, or the Company) considers necessary for a fair statement of the results of operations for the interim periods covered and the consolidated financial condition of the Company at the date of the balance sheets. This Quarterly Report on Form 10-Q should be read in conjunction with the Company s audited consolidated financial statements contained in the Company s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on February 29, 2012 (2011 Form 10-K). The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2012, or any other future period. The Company s fiscal quarters are based on 13-week periods, except for the fourth quarter which ends on December 31.

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

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

Significant Accounting Policies. The Company s significant accounting policies are described in Note 1 to its audited Consolidated Financial Statements included in its 2011 Form 10-K. There have been no significant changes to these policies during the nine months ended September 28, 2012.

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

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued additional guidance on fair value disclosures. This guidance contains certain updates to the measurement guidance, as well as enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements, including enhanced disclosure for: (1) the valuation processes used by the reporting entity; and (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. This guidance is effective for interim and annual periods beginning on or after December 15, 2011 and early adoption is prohibited. The Company adopted these reporting requirements in the first quarter of 2012. Adoption of these new reporting requirements did not have any impact on the Company because the Company does not hold any assets or liabilities for which fair value is based on Level 3 measurements.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of comprehensive income as part of the statement of changes in shareholders equity. In December 2011, the FASB issued guidance which indefinitely defers the effective date of the requirement to disclose on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. The guidance must be applied retrospectively, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this new guidance in the first quarter of 2012.

In September 2011, the FASB approved an accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step annual goodwill impairment test. An entity is required to perform step one only if the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This update is applicable to the Company s annual goodwill impairment test performed in the fourth quarter each year.

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In July 2012, the FASB issued Accounting Standard Update 2012-2, Intangibles - Goodwill and Other , which allows an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived asset is impaired for determining whether it is necessary to perform the quantitative impairment test. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. Application of this new guidance is not expected to have any impact on the Company because it does not hold any indefinite-lived assets.

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NOTE 3: ACQUISITIONS

On September 15, 2010, Harmonic completed its acquisition of Omneon, Inc, at which time the holders of Omneon capital stock, including outstanding Omneon stock options and restricted stock units, were entitled to receive aggregate consideration of approximately $194.0 million in cash and up to 17,128,176 shares of Harmonic common stock. To secure post-closing indemnification obligations of the holders of Omneon capital stock and vested and outstanding Omneon stock options and vested restricted stock units, Harmonic deposited into escrow an aggregate of approximately $21.0 million in cash and 1,926,920 shares of Harmonic common stock that would otherwise be issued to the holders of Omneon capital stock and vested and outstanding Omneon stock options and vested restricted stock units. In the first quarter of 2012, the Company submitted an indemnification claim for reimbursement from escrow and received reimbursement of $0.8 million, including $0.5 million of cash and 40,372 shares of common stock valued at $0.3 million. The return of shares was reflected as a reduction in common stock and additional paid-in-capital. The reimbursement was for previously expensed legal and tax costs incurred by the Company following the date of acquisition. The indemnification period ended on March 15, 2012, and the cash and shares remaining in escrow were distributed to the holders of Omneon capital stock.

NOTE 4: FAIR VALUE

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

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

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

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

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

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

The Company uses the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. During the nine months ended September 28, 2012, there were no nonrecurring fair value measurements of assets and liabilities subsequent to initial recognition.

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The following table sets forth the fair value of the Company s financial assets and liabilities measured at fair value on a recurring basis as of September 28, 2012 and December 31, 2011, based on the three-tier fair value hierarchy:

	Total	Level 1	Level 2	Level 3
		(In thousands)		
September 28, 2012				
Cash equivalents				
Money market funds	$ 61,481	$ 61,481	$	$
Short-term investments				
Certificate of deposit	1,601		1,601	
State, municipal and local government agencies bonds	47,730		47,730	
Corporate bonds	27,026		27,026	
Commercial paper	10,388		10,388	
U.S. federal government bonds	2,002	2,002		
Prepaids and other current assets				
Foreign exchange forward contracts	142		142	
Total assets measured and recorded at fair value	$ 150,370	$ 63,483	$ 86,887	$
Accrued liabilities				
Foreign exchange forward contracts	$ 496	$	$ 496	$
Total liabilities measured and recorded at fair value	$ 496	$	$ 496	$

	Total	Level 1	Level 2	Level 3
		(In thousands)		
December 31, 2011				
Cash equivalents				
Money market funds	$ 62,131	$ 62,131	$	$
Short-term investments				
State, municipal and local government agencies bonds	38,825		38,825	
Corporate bonds	18,604		18,604	
Commercial paper	4,195		4,195	
U.S. federal government bonds	9,230	9,230		
Prepaids and other current assets				
Foreign exchange forward contracts	373		373	
Total assets measured and recorded at fair value	$ 133,358	$ 71,361	$ 61,997	$
Accrued liabilities				
Foreign exchange forward contracts	$ 159	$	$ 159	$
Total liabilities measured and recorded at fair value	$ 159	$	$ 159	$

At September 28, 2012 and December 31, 2011, maturities of short-term investments are as follows:

	September 28, 2012	December 31, 2011
	(In thousands)	

Short-term investments:		
Less than one year	$ 69,995	$ 43,470
Due in 1 2 years	18,752	27,384
Total short-term investments	$ 88,747	$ 70,854

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The following is a summary of available-for-sale securities at September 28, 2012 and December 31, 2011:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
September 28, 2012				
Certificate of deposit	$ 1,601	$	$	$ 1,601
State, municipal and local government agencies bonds	47,672	61	(3)	47,730
Corporate bonds	27,020	11	(5)	27,026
Commercial paper	10,387	1		10,388
U.S. federal government bonds	2,001	1		2,002
Total	$ 88,681	$ 74	$ (8)	$ 88,747
December 31, 2011				
State, municipal and local government agencies bonds	$ 38,785	$ 46	$ (6)	$ 38,825
Corporate bonds	18,613	6	(15)	18,604
Commercial paper	4,195			4,195
U.S. federal government bonds	9,226	4		9,230
Total	$ 70,819	$ 56	$ (21)	$ 70,854

Harmonic monitors its investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. A decline of fair value below amortized costs of debt securities is considered other-than temporary if the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of the entire amortized cost basis. At the present time, the Company does not intend to sell its investments that have unrealized losses in accumulated other comprehensive loss. In addition, the Company does not believe that it is more likely than not that it will be required to sell its investments that have unrealized losses in accumulated other comprehensive loss before the Company recovers the principal amounts invested. The Company believes that the unrealized losses are temporary and do not require an other-than-temporary impairment, based on its evaluation of available evidence as of September 28, 2012.

As of September 28, 2012, there were no individual available-for-sale securities in a material unrealized loss position and the amount of unrealized losses on the total investment balance was insignificant.

NOTE 5: BALANCE SHEET

	September 28, 2012	December 31, 2011
	(In thousands)	
Accounts receivable		
Accounts receivable	$ 103,150	$ 118,138
Less: allowances for doubtful accounts, returns and discounts	(8,512)	(8,252)
	$ 94,638	$ 109,886

As of September 28, 2012, no customer accounted for more than 10% of net accounts receivable.

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	September 28, 2012	December 31, 2011
	(In thousands)	
Inventories:		
Raw materials	$ 10,708	$ 14,099
Work-in-process	5,182	4,250
Finished goods	52,379	52,300
	$ 68,269	