

HARMONIC INC  
Form 10-Q  
August 10, 2016  
Table of Contents

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

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Form 10-Q

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(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended July 1, 2016

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

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

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Delaware 77-0201147  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
4300 North First Street  
San Jose, CA 95134  
(408) 542-2500

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

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

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

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

Large accelerated filer  Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the registrant’s Common Stock, \$.001 par value, outstanding on August 1, 2016 was 78,030,325.

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Table of Contents

TABLE OF CONTENTS

PART I

<u>ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	<u>3</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>36</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>47</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>49</u>

PART II

<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>50</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>50</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>70</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>70</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>70</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>70</u>
<u>ITEM 6. EXHIBITS</u>	<u>70</u>
<u>SIGNATURES</u>	<u>71</u>

Table of Contents

## PART I

## FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HARMONIC INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share data)

	July 1, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$51,516	\$126,190
Short-term investments	13,760	26,604
Accounts receivable, net	102,668	69,515
Inventories	36,624	38,819
Prepaid expenses and other current assets	43,317	25,003
Total current assets	247,885	286,131
Property and equipment, net	36,517	27,012
Goodwill	235,369	197,781
Intangibles, net	39,638	4,097
Other long-term assets	28,635	9,936
Total assets	\$588,044	\$524,957
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Other debts and capital lease obligations, current	\$7,829	\$—
Accounts payable	35,794	19,364
Income taxes payable	139	307
Deferred revenue	62,679	33,856
Accrued liabilities	52,346	31,354
Total current liabilities	158,787	84,881
Convertible notes, long-term	100,712	98,295
Other debts and capital lease obligations, long-term	16,190	—
Income taxes payable, long-term	3,980	3,886
Deferred tax liabilities, long-term	957	—
Other non-current liabilities	15,341	9,727
Total liabilities	295,967	196,789
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.001 par value, 150,000 shares authorized; 78,015 and 76,015 shares issued and outstanding at July 1, 2016 and December 31, 2015, respectively	78	76
Additional paid-in capital	2,245,120	2,236,418
Accumulated deficit	(1,949,767)	(1,903,908)
Accumulated other comprehensive loss	(3,354)	(4,418)
Total stockholders' equity	292,077	328,168
Total liabilities and stockholders' equity	\$588,044	\$524,957

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

Table of Contents

HARMONIC INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited, in thousands, except per share data)

	Three months ended		Six months ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Revenue:				
Product	\$77,413	\$77,447	\$135,057	\$157,920
Services	32,158	25,656	56,346	49,199
Total net revenue	109,571	103,103	191,403	207,119
Cost of revenue:				
Product	44,049	35,977	71,238	71,437
Services	14,482	12,741	28,471	26,269
Total cost of revenue	58,531	48,718	99,709	97,706
Total gross profit	51,040	54,385	91,694	109,413
Operating expenses:				
Research and development	26,507	21,816	50,070	44,145
Selling, general and administrative	36,516	31,281	69,386	62,477
Amortization of intangibles	4,232	1,446	6,597	2,892
Restructuring and related charges	1,903	185	4,515	229
Total operating expenses	69,158	54,728	130,568	109,743
Loss from operations	(18,118 )	(343 )	(38,874 )	(330 )
Interest (expense) income, net	(2,651 )	17	(5,072 )	72
Other income (expense), net	332	59	323	(447 )
Loss on impairment of long-term investment	—	—	(1,476 )	(2,505 )
Loss before income taxes	(20,437 )	(267 )	(45,099 )	(3,210 )
Provision for income taxes	242	727	760	441
Net loss	\$(20,679)	\$(994 )	\$(45,859 )	\$(3,651 )
Net loss per share:				
Basic and diluted	\$(0.27 )	\$(0.01 )	\$(0.59 )	\$(0.04 )
Shares used in per share calculation:				
Basic and diluted	77,342	88,426	77,168	88,541

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

Table of Contents

## HARMONIC INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands)

	Three months ended		Six months ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Net loss	\$ (20,679 )	\$ (994 )	\$ (45,859 )	\$ (3,651 )
Other comprehensive income (loss) before tax:				
Change in unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) arising during the period	(165 )	516	158	332
Losses (gains) reclassified into earnings	22	(138 )	100	(187 )
	(143 )	378	258	145
Change in unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses) arising during the period	(49 )	460	30	945
Loss reclassified into earnings	—	—	1,476	—
	(49 )	460	1,506	945
Change in foreign currency translation adjustments	(2,611 )	582	(677 )	(402 )
Other comprehensive income (loss) before tax	(2,803 )	1,420	1,087	688
Less: Provision for (benefit from) income taxes	5	(10 )	23	(6 )
Other comprehensive income (loss), net of tax	(2,808 )	1,430	1,064	694
Total comprehensive income (losses)	\$ (23,487 )	\$ 436	\$ (44,795 )	\$ (2,957 )

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

Table of Contents

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

	Six months ended	
	July 1, 2016	July 3, 2015
Cash flows from operating activities:		
Net loss	\$(45,859)	\$(3,651)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of intangibles	8,322	3,439
Depreciation	7,737	6,930
Stock-based compensation	5,862	8,018
Amortization of discount on convertible debt	2,417	—
Restructuring, asset impairment and loss on retirement of fixed assets	1,687	252
Loss on impairment of long-term investment	1,476	2,505
Deferred income taxes, net	38	—
Provision for excess and obsolete inventories	5,203	843
Allowance for doubtful accounts, returns and discounts	697	(713 )
Excess tax benefits from stock-based compensation	—	(22 )
Other non-cash adjustments, net	144	—
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(16,000 )	(1,222 )
Inventories	3,158	(595 )
Prepaid expenses and other assets	(4,148 )	(11,635 )
Accounts payable	2,168	6,415
Deferred revenue	25,956	9,833
Income taxes payable	(122 )	(815 )
Accrued and other liabilities	(7,029 )	(5,994 )
Net cash (used in) provided by operating activities	(8,293 )	13,588
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(72,989 )	—
Purchases of investments	—	(12,986)
Proceeds from maturities of investments	12,842	15,744
Purchases of property and equipment	(7,708 )	(7,505 )
Purchases of long-term investments	—	(85 )
Net cash used in investing activities	(67,855 )	(4,832 )
Cash flows from financing activities:		
Payment of convertible debt issuance costs	(582 )	—
Increase in other debts and capital leases	5,972	—
Repayment of other debts and capital leases	(6,524 )	—
Payments for repurchase of common stock	—	(12,171)
Proceeds from common stock issued to employees	3,737	9,133
Payment of tax withholding obligations related to net share settlements of restricted stock units	(1,034 )	(2,642 )
Excess tax benefits from stock-based compensation	—	22
Net cash provided by (used in) financing activities	1,569	(5,658 )
Effect of exchange rate changes on cash and cash equivalents	(95 )	(81 )
Net (decrease) increase in cash and cash equivalents	(74,674 )	3,017
Cash and cash equivalents at beginning of period	126,190	73,032
Cash and cash equivalents at end of period	\$51,516	\$