



Harmonic Announces Third Quarter Results; Continued Sequential Revenue Growth and Cost Reductions

October 24, 2001

SUNNYVALE, Calif.--(BUSINESS WIRE)--Oct. 24, 2001--Harmonic Inc. (Nasdaq:HLIT) today announced its results for the quarter ended September 28, 2001.

For the third quarter of 2001, Harmonic reported net sales of \$57.5 million, up 17% from \$49.3 million in the previous quarter and down from \$68.2 million for the third quarter of 2000. Domestic sales represented 61% of total sales for the third quarter of 2001.

The Convergent Systems (CS) division, which designs, manufactures and markets digital headend systems for a variety of networks, had net sales of \$39.7 million, up 39% from divisional net sales of \$28.5 million in the previous quarter. During the quarter, the Company increased shipments of its new MV50 encoder to major North American and international satellite television operators and delivered its NSG product to new cable customers for video-on-demand applications. Harmonic also commenced the first deployment of the MV50 to enable a telco customer to deliver video-over-DSL.

Harmonic's Broadband Access Networks (BAN) division, which designs, manufactures and markets fiber optic products for broadband cable networks, had net sales of \$17.8 million for the third quarter of 2001, compared to divisional net sales of \$20.8 million in the previous quarter. The decline reflects the continuation of weak market conditions in transmission network upgrades in the cable industry. At the same time, Harmonic continued development of its next-generation optical products and initiated a trial of its new CURBswitch product for a fiber-to-the-curb network at a major cable operator.

"Our revenue is being driven by growing demand for our new products and penetration into new markets," said Anthony J. Ley, Chairman, President and Chief Executive Officer. "We see significant opportunities with satellite operators worldwide and we continue to participate in new customer initiatives, such as video-on-demand deployments and fiber-to-the-curb trials, for cable TV. We are also very excited about the long-term potential of video-over-DSL for telco customers."

"In light of near-term economic uncertainty and its impact on the capital spending of many of our major customers, we have taken additional steps to reduce operating costs. During the third quarter, we continued to streamline our product offerings and reassessed our facilities requirements. In parallel, we are aligning our business infrastructure by a further reduction in our workforce to approximately 700 employees. The Company had 950 employees worldwide a year ago. With our exciting new products and expansion into new markets, we believe that Harmonic will emerge well-positioned from the current economic downturn," said Ley.

The financial effect of these measures includes a charge in the third quarter of \$23.1 million for costs of facilities in excess of projected needs. A charge of \$29.5 million was also recorded for provisions related to excess inventory and fixed assets. Severance costs of approximately \$1.0 million related to the announced reduction in force will be recorded in the fourth quarter.

Excluding the effects of non-cash purchase accounting adjustments for amortization of goodwill and other intangibles, and the facilities, inventory and fixed asset charges discussed above, the net loss for the third quarter of 2001 was \$11.9 million or \$0.20 per share on 58,908,000 basic weighted average shares outstanding, compared to a net loss of \$5.5 million or \$0.10 per diluted share on 57,724,000 basic weighted average shares outstanding for the same period of 2000. Including the adjustments for amortization of goodwill and other intangibles and the facilities, inventory and fixed asset charges, the net loss was \$68.8 million or \$1.17 per share for the third quarter of 2001.

A listen-only Internet broadcast of Harmonic's conference call regarding its third quarter 2001 results will be available today (2:00 P.M. Pacific/5:00 P.M. Eastern) at www.harmonicinc.com under "Investor Relations" or by calling 800-633-8741, reservation number 17636775. A replay will also be available for 48 hours either at www.harmonicinc.com or by calling 800-633-8284 (reservation number: 17636775).

About Harmonic Inc.

Harmonic is a leading provider of innovative broadband solutions that deliver video, voice and data to communications providers around the world. Harmonic's technically advanced fiber optic, digital video and IP data delivery systems enable network operators to provide a range of interactive and advanced digital services that include high-speed Internet access, telephony, digital video, HDTV, video and audio streaming, and video-on-demand.

Harmonic (Nasdaq:HLIT) is headquartered in Sunnyvale, California with R&D, sales, and system integration centers worldwide. The Company has customers in over 40 countries on six continents, including many of the world's largest communications providers. For more information, visit www.harmonicinc.com.

This press release contains forward-looking statements within the meaning of Section 27(a) of the Securities Act of 1933 and Section 21(e) of the Securities Exchange Act of 1934, including statements concerning growing demand and deployment of new products and penetration into new markets, significant opportunities with satellite operators worldwide, the long-term potential of video-over-DSL, the completion of the consolidation of the Sunnyvale campus, and the ability to emerge well-positioned from the current economic downturn. These forward-looking statements are also subject to risks and uncertainties which would cause actual results to differ materially from those projected. Those risks include general economic trends, competitive conditions, market acceptance of new or existing products, risks associated with the development and deployment of new products, the risk that expected market opportunities do not develop, our ability to reduce operating costs, unpredictable sales cycles, and cable, satellite and telco industry capital spending. Additional risks are detailed in the Company's filings with the Securities and Exchange Commission, including its 2000 Annual Report on Form 10-K and its Reports on Form 10-Q for the quarters ended March 30 and June 29, 2001. The Company may, from time to time, make additional written and oral forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and its reports to shareholders. The Company does not undertake to update any forward-looking statement that

may be made from time to time by or on behalf of the Company.

Editor's Note: Product and company names used here are trademarks or registered trademarks of their respective companies.

Harmonic Inc.
Pro Forma Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 28, 2001	Sept. 29, 2000	Sept. 28, 2001	Sept. 29, 2000
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Net sales	\$ 57,473	\$ 68,171	\$ 147,077	\$ 210,997
Cost of sales	67,859	44,302	155,917	123,523
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Gross profit (loss)	(10,386)	23,869	(8,840)	87,474
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Operating expenses:				
Research and development	11,932	16,036	41,447	34,005
Selling, general and administrative	18,466	20,059	58,978	45,854
Excess facility costs	23,100	--	30,100	--
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Total operating expenses	53,498	36,095	130,525	79,859
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Income (loss) from operations	(63,884)	(12,226)	(139,365)	7,615
Interest and other income (expense), net	(112)	3,377	1,302	9,312
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Income (loss) before income taxes	(63,996)	(8,849)	(138,063)	16,927
Provision for (benefit from) income taxes	500	(3,304)	1,500	6,433
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Net income (loss)	\$ (64,496)	\$ (5,545)	\$ (139,563)	\$ 10,494
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Net income (loss) per share				
Basic	\$ (1.09)	\$ (0.10)	\$ (2.39)	\$ 0.23
	=====	=====	=====	=====
Diluted	\$ (1.09)	\$ (0.10)	\$ (2.39)	\$ 0.22
	=====	=====	=====	=====
Weighted average shares				
Basic	58,908	57,724	58,442	45,474
	=====	=====	=====	=====
Diluted	58,908	57,724	58,442	48,141
	=====	=====	=====	=====

Notes to the unaudited Pro Forma Condensed Consolidated Statements of Operations:

1. The above unaudited Pro Forma Condensed Consolidated Statements of Operations are not presented in accordance with generally accepted accounting principles due to the exclusion of amortization of goodwill and intangibles and the related tax effects.
2. In addition, the unaudited Pro Forma Condensed Consolidated Statements of Operations for the three month and nine month periods ended September 28, 2001 include certain special charges as follows:

- Excess facility costs of \$23.1 million and \$30.1 million were recorded during the three and nine month periods in 2001, respectively, to accrue for real estate commitments in excess of projected needs.
- Inventory and fixed asset provisions of \$29.5 million and \$42.5 million were recorded for the three and nine month periods in 2001 to provide for anticipated from excess, obsolete and discontinued products. For the three month period, \$28.3 million was charged to cost of sales, \$1.1 million to operating expenses, and \$0.1 million to other income and expense. For the nine month period, \$40.1 million was charged to cost of sales, \$2.3 million to operating expenses, and \$0.1 million to other income and expense.
- Severance and other costs totaling \$2.4 million were recorded during the nine month period, of which, \$0.7 million was charged to cost of sales, \$1.2 million was charged to operating expenses, and \$0.5 million was charged to other income and expense.

Excluding these costs from the unaudited Pro Forma Consolidated Financial Statements of Operations for the three and nine month periods ended September 28, 2001 would result in a net loss per share of \$0.20 and \$1.10, respectively.

DiviCom's results of operations were included from the date of acquisition, May 3, 2000.

Harmonic Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 28, 2001	Sept. 29, 2000	Sept. 28, 2000	Sept. 29, 2000
Net sales	\$ 57,473	\$ 68,171	\$ 147,077	\$ 210,997
Cost of sales	69,877	49,052	161,962	131,237
Gross profit (loss)	(12,404)	19,119	(14,885)	79,760
Operating expenses:				
Research and development	11,932	16,036	41,447	34,005
Selling, general and administrative	41,566	20,059	89,078	45,854
Amortization of goodwill and other intangibles	3,472	83,248	9,664	138,580

Acquired in-process technology	--	1,100	--	39,800
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Total operating expenses	56,970	120,443	140,189	258,239
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Loss from operations	(69,374)	(101,324)	(155,074)	(178,479)
Interest income and other income (expense), net	(112)	3,377	1,302	9,312
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Loss before income taxes	(69,486)	(97,947)	(153,772)	(169,167)
Benefit from income taxes	(677)	(8,277)	(2,174)	(1,761)
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Net loss	\$ (68,809)	\$ (89,670)	\$ (151,598)	\$ (167,406)
	=====	=====	=====	=====
Net loss per share Basic and Diluted	\$ (1.17)	\$ (1.55)	\$ (2.59)	\$ (3.68)
	=====	=====	=====	=====
Weighted average shares Basic and Diluted	58,908	57,724	58,442	45,474
	=====	=====	=====	=====

These Condensed Consolidated Statements of Operations include the results of operations of DiviCom from May 3, 2000.

Harmonic Inc.
Condensed Consolidated Balance Sheets
(In thousands)

	September 28, 2001 (Unaudited)	December 31, 2000
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Assets		
Current assets:		
Cash and cash equivalents	\$ 28,253	\$ 13,505
Short-term investments	25,731	86,164
Accounts receivable, net	41,129	67,726
Inventories	35,424	80,191
Deferred income taxes	27,984	30,506
Prepaid expenses and other assets	7,083	10,961
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Total current assets	165,604	289,053
Property and equipment, net	46,658	47,366
Intangibles and other assets	73,315	89,525
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	\$ 285,577	\$ 425,944
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Liabilities and stockholders' equity

Current liabilities:

Accounts payable	\$ 14,345	\$ 32,783
Current portion of long-term debt	1,075	--
Income taxes payable	22,039	1,109
Accrued liabilities	53,712	60,543
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Total current liabilities	91,171	94,435
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Long-term debt, less current portion	1,401	--
Deferred income taxes	29,021	35,215
Other non-current liabilities	14,232	592

Stockholders' equity:

Common stock	1,958,859	1,952,842
Accumulated deficit	(1,809,398)	(1,657,800)
Accumulated other comprehensive income	291	660
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Total stockholders' equity	149,752	295,702
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\$ 285,577	\$ 425,944
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