



Harmonic Inc. Announces Second Quarter Results

July 24, 2002

SUNNYVALE, Calif., Jul 24, 2002 (BUSINESS WIRE) -- Harmonic Inc. (Nasdaq: HLIT) today announced its results for the quarter ended June 28, 2002. For the second quarter of 2002, Harmonic reported net sales of \$56.3 million, up from \$49.3 million for the second quarter of 2001. Domestic sales represented 77% of total sales for the second quarter of 2002.

The Convergent Systems (CS) division, which designs, manufactures and markets digital headend systems for a number of markets, had divisional net sales of \$32.7 million, up 15% from \$28.5 million in the second quarter of 2001. During the second quarter, the Company saw increased demand for its Narrowcast Services Gateway(TM) (NSG) product line for new video-on-demand deployments by several major cable operators in the United States. The combination of Harmonic's GIGALight(TM) DWDM transmission systems, which use Gigabit Ethernet and cost-effectively scale the bandwidth of existing fiber networks, and the NSG, which more efficiently distributes narrowcast streams, is becoming the platform of choice for cable operators as they roll out content-on-demand services such as VOD. In addition, Harmonic started to ship its new Broadcast Network Gateway (BNG) product to support the delivery of high definition television (HDTV).

The Broadband Access Networks (BAN) division, which designs, manufactures and markets fiber optic products for broadband cable networks, had divisional net sales of \$23.6 million, up 13% from \$20.8 million in the second quarter of 2001. The increase in BAN sales reflected in part growing interest in its GIGALight transport systems and its new 100-GHz METROLINK DWDM systems, which allow cable operators to deliver more narrowcast and multicast services.

"We are pleased with our second quarter performance, which had higher revenue and a reduced loss in the face of challenging market conditions," said Anthony J. Ley, Chairman, President and Chief Executive Officer. "The success of our new products for video-on-demand and HDTV demonstrated our ability to anticipate emerging requirements and rapidly bring high quality solutions to market. In addition, through our focused balance sheet management, we are very pleased to report that our cash balance grew from \$52 million to almost \$57 million during the second quarter."

"With concerns in the financial markets about the impact of Adelphia Communications' bankruptcy and other recent events in the telecommunications industry, we are preparing for the possibility of a more challenging capital spending environment for our cable customers during the remainder of this year. We also expect spending by our domestic satellite customers and European customers to be relatively flat because of pending business consolidations, financial restructuring and regulatory issues. Consequently, we took action last week to reduce our workforce by approximately 80 full-time employees and 20 consultants and temporary staff."

"In the near term, we remain focused on cost reduction efforts, while maintaining our strong market position and technology leadership across a range of broadband markets worldwide. Despite the current market uncertainty, we believe that the future of broadband communications will be driven by consumer demand for high-speed access, video-on-demand, content-on-demand, video conferencing and other advanced services."

Harmonic recorded a charge of approximately \$2.9 million, or \$0.05 per share, during the second quarter of 2002 to provide for probable losses in connection with the bankruptcy filing of Adelphia Communications. In addition, the second quarter results include a benefit of \$2.9 million, or \$0.05 per share, resulting from products sold during the quarter which had been reserved in prior years as excess and obsolete inventories. Including the receivables and inventory items noted above, but excluding the effects of non-cash accounting charges for the amortization of intangibles, the pro forma net loss for the second quarter of 2002 was \$5.3 million, or \$0.09 per share, on 59,552,000 basic weighted average shares outstanding. These results compare to a pro forma net loss of \$30.2 million, or \$0.52 per share, on 58,177,000 basic weighted average shares outstanding for the same period of 2001, excluding amortization of goodwill and other intangibles. Including the amortization of intangibles, the net loss for the second quarter of 2002 was \$11.1 million, or \$0.19 per share. The Company anticipates that it will record a charge for severance costs of approximately \$1.0 million during the third quarter of 2002 for the recent workforce reduction.

In a separate press release today, Harmonic also announced the election to its Board of Directors of William F. Redderson, former Executive Vice President of Corporate Strategy at BellSouth, replacing David Lane who served on the Board since 1992. "We continue to strengthen our already distinguished Board of Directors with seasoned business people who are independent of the management team, have extensive experience in the communications industry and together provide a wide range of financial, technical and business expertise," said Mr. Ley.

Harmonic also announced today that its Board of Directors approved the adoption of a stockholder rights plan. Under the plan, Harmonic will issue a dividend of one right for each share of common stock of the company held by stockholders of record as of the close of business on August 7, 2002.

Harmonic's conference call regarding its second quarter 2002 results will be held today at 2:00 P.M. Pacific (5:00 P.M. Eastern) on July 24, 2002. A listen-only broadcast of the conference call can be accessed on the Company's website at www.harmonicinc.com or by calling +1-212-346-0485 (Reservation No. 20723454). The replay will be available at the same website address or by calling 800-633-8284 or 858-812-6440 (Reservation No. 20723454).

About Harmonic Inc.

Harmonic Inc. is a leading provider of digital video, broadband optical networking and IP delivery systems to cable, satellite, telecom and broadcast network operators. Harmonic's open standards-based solutions for the headend through the last mile enable customers to develop new revenue sources and a competitive advantage by offering powerful interactive video, voice and data services such as video-on-demand, high definition digital television, telephony and Internet access.

Harmonic (Nasdaq: HLIT) is headquartered in Sunnyvale, California with R&D, sales and system integration centers worldwide. The Company's customers, including many of the world's largest communications providers, deliver services in virtually every country. Visit www.harmonicinc.com for more information.

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 related to increased interest in Harmonic's NSG products, GIGAbit Ethernet capabilities, BNG product, GIGALight transport systems, and its 100-GHz METROLINK DWDM system developments in broadband markets, anticipated spending by cable and satellite customers, extension of Harmonic's customer base, maintenance of Harmonic's technology leadership and market position and expectations for growth in broadband communications over the long term. Actual results in future periods are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks include delays or decreases in capital spending in the cable and satellite industry, general economic conditions, market acceptance of new or existing Harmonic products, losses of one or more key customers, risks associated with Harmonic's international operations, inventory management problems, the effect of competition, difficulties associated with rapid technological changes in Harmonic's markets, the need to introduce new and enhanced products, risks associated with a cyclical and unpredictable sales cycle and risks associated with integrating operations in a timely manner. The forward-looking statements contained in this press release are also subject to other risks and uncertainties, including those more fully described in Harmonic's filings with the Securities and Exchange Commission including its Annual Report filed on Form 10-K for the year ended December 31, 2001 and its quarterly reports on Form 10-Q. Harmonic does not undertake to update any forward-looking statements.

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		Six Months Ended	
	June 28, 2002	June 29, 2001	June 28, 2002	June 29, 2001
Net sales	\$ 56,309	\$ 49,330	\$110,341	\$ 89,604
Cost of sales	34,052	39,038	69,299	88,058
Gross profit	22,257	10,292	41,042	1,546
Operating expenses:				
Research and development	10,795	14,013	21,914	29,515
Selling, general and administrative	17,026	18,830	32,347	40,512
Excess facility costs	--	7,000	--	7,000
Total operating expenses	27,821	39,843	54,261	77,027
Pro forma loss from operations	(5,564)	(29,551)	(13,219)	(75,481)
Interest and other income (expense), net	290	(142)	283	1,414
Pro forma loss before income taxes	(5,274)	(29,693)	(12,936)	(74,067)
Provision for income taxes	--	500	500	1,000
Pro forma net loss	\$ (5,274)	\$ (30,193)	\$ (13,436)	\$ (75,067)
Pro forma net loss per share				
Basic and Diluted	\$ (0.09)	\$ (0.52)	\$ (0.23)	\$ (1.29)
Weighted average shares				
Basic and Diluted	59,552	58,177	59,513	58,119

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

- The above pro forma statements are not presented in accordance with generally accepted accounting principles due to the exclusion of amortization of goodwill and other intangibles and the related tax effects. The effect of excluding these items is as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2002	June 29, 2001	June 28, 2002	June 29, 2001
Pro forma net loss	\$ (5,274)	\$ (30,193)	\$ (13,436)	\$ (75,067)
Amortization of intangibles, charged to:				
Cost of sales	3,022	2,013	6,044	4,027
Selling, general and administrative	2,828	3,095	5,656	6,191
Tax benefit of amortization of intangibles	--	(1,177)	--	(2,496)
GAAP net loss	\$ (11,124)	\$ (34,124)	\$ (25,136)	\$ (82,789)
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2. In addition, the unaudited Pro Forma Condensed Consolidated Statements of Operations for the three and six month periods ended June 28, 2002 include a charge of approximately \$2.9 million to provide for probable losses in connection with the bankruptcy filing of Adelphia Communications and a credit of approximately \$2.9 million resulting from products sold during the second quarter which had been reserved in prior years as excess and obsolete inventories.
3. For the three and six month periods ended June 29, 2001, the unaudited Pro Forma Condensed Consolidated Statements of Operations include special charges associated with excess and obsolete inventories, excess facilities, and severance and other costs of \$8.4 million and \$22.4 million, respectively.

Harmonic Inc.

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

	Three Months Ended		Six Months Ended	
	June 28, 2002	June 29, 2001	June 28, 2002	June 29, 2001
Net sales	\$ 56,309	\$ 49,330	\$110,341	\$ 89,604
Cost of sales	37,074	41,051	75,343	92,085
Gross profit (loss)	19,235	8,279	34,998	(2,481)
Operating expenses:				
Research and development	10,795	14,013	21,914	29,515
Selling, general and administrative	17,026	25,830	32,347	47,512
Amortization of intangibles	2,828	3,096	5,656	6,192
Total operating expenses	30,649	42,939	59,917	83,219
Loss from operations	(11,414)	(34,660)	(24,919)	(85,700)
Interest income and other income (expense), net	290	(142)	283	1,414
Loss before income taxes	(11,124)	(34,802)	(24,636)	(84,286)
Provision for (benefit from) income taxes	--	(678)	500	(1,497)
Net loss	\$ (11,124)	\$ (34,124)	\$ (25,136)	\$ (82,789)
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Net loss per share				
Basic and Diluted	\$ (0.19)	\$ (0.59)	\$ (0.42)	\$ (1.42)

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Weighted average shares				
Basic and Diluted	59,552	58,177	59,513	58,119
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Harmonic Inc.
Condensed Consolidated Balance Sheets
(In thousands)

June 28, 2002 December 31, 2001
(Unaudited)

Assets

Current assets:

Cash and cash equivalents	\$ 37,848	\$ 36,005
Short-term investments	19,007	18,272
Accounts receivable, net	38,473	34,402
Inventories	27,847	30,944
Deferred income taxes	4,219	9,065
Prepaid expenses and other assets	5,901	9,775

Total current assets	133,295	138,463
Property and equipment, net	38,629	45,755
Intangibles and other assets	42,102	53,838

\$ 214,026	\$ 238,056
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Liabilities and stockholders' equity

Current liabilities:

Current portion of long-term debt	\$ 1,664	\$ 1,281
Accounts payable	10,992	10,296
Income taxes payable	6,047	2,804
Accrued liabilities	58,069	57,474

Total current liabilities	76,772	71,855
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Long-term debt, less

current portion	1,350	1,465
Deferred income taxes	4,219	9,065
Accrued excess facility costs	17,699	19,563
Other non-current liabilities	1,274	1,054

Total liabilities	101,314	103,002
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Stockholders' equity:

Common stock	1,961,922	1,959,102
Accumulated deficit	(1,849,343)	(1,824,207)
Accumulated other comprehensive income	133	159

Total stockholders' equity	112,712	135,054
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\$ 214,026	\$ 238,056
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CONTACT: Harmonic Inc.
 Robin N. Dickson, 408/542-2500 (Chief Financial Officer)
 or
 StreetConnect
 Michael Newman, 408/542-2760 (Investor Relations)

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