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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 29, 2000

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission File No. 0-25826

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

DELAWARE	77-0201147
(State of incorporation)	(I.R.S. Employer Identification No.)

549 Baltic Way
Sunnyvale, CA 94089
(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 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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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As of September 29, 2000 there were 57,777,217 shares of the Registrant's Common Stock outstanding.

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HARMONIC INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HARMONIC INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

SEPTEMBER 29, 2000	DECEMBER 31, 1999
-----	-----
(UNAUDITED)	

ASSETS

Current assets:

Cash and cash equivalents	\$ 17,901	\$ 24,822
Short-term investments	93,381	64,877
Accounts receivable, net	90,460	35,421
Inventories	81,979	35,310
Deferred income taxes	11,525	5,478
Prepaid expenses and other assets	12,902	3,792
	-----	-----
Total current assets	308,148	169,700
Property and equipment, net	37,602	14,931
Intangibles and other assets	1,611,974	1,062
	-----	-----
	\$1,957,724	\$185,693
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 32,078	\$ 18,946
Income taxes payable	7,456	2,265
Deferred income taxes	19,327	--
Accrued liabilities	43,345	19,073
	-----	-----
Total current liabilities	102,206	40,284
Deferred income taxes	73,889	--
Other non-current liabilities	610	521

Stockholders' equity:

Preferred stock, \$.001 par value, 5,000,000 shares authorized; no shares issued or outstanding	--	--
Common Stock, \$.001 par value, 150,000,000 shares authorized; 57,777,217 and 30,501,766 shares issued and outstanding	58	31
Capital in excess of par value	1,952,455	148,551
Accumulated deficit	(171,198)	(3,792)
Accumulated other comprehensive income (loss)	(296)	98
	-----	-----
Total stockholders' equity	1,781,019	144,888
	-----	-----
	\$1,957,724	\$185,693
	=====	=====

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

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HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 29, 2000	OCTOBER 1, 1999	SEPTEMBER 29, 2000	OCTOBER 1, 1999
	-----	-----	-----	-----
Net sales	\$ 68,171	\$52,624	\$ 210,997	\$120,789
Cost of sales	49,052	29,528	131,237	69,326

Gross profit	19,119	23,096	79,760	51,463
Operating expenses:				
Research and development	16,036	4,798	34,005	11,971
Selling, general and administrative	20,059	8,897	45,854	23,743
Amortization of goodwill and other intangibles	83,248	76	138,580	228
In-process research and development	1,100	--	39,800	--
Total operating expenses	120,443	13,771	258,239	35,942
Income (loss) from operations	(101,324)	9,325	(178,479)	15,521
Interest and other income, net	3,377	931	9,312	1,674
Income (loss) before income taxes	(97,947)	10,256	(169,167)	17,195
Provision for (benefit from) income taxes	(8,277)	2,564	(1,761)	4,299
Net income (loss)	\$ (89,670)	\$ 7,692	\$ (167,406)	\$ 12,896
Net income (loss) per share				
Basic	\$ (1.55)	\$ 0.25	\$ (3.68)	\$ 0.47
Diluted	\$ (1.55)	\$ 0.23	\$ (3.68)	\$ 0.43
Weighted average shares				
Basic	57,724	30,179	45,474	27,592
Diluted	57,724	32,836	45,474	30,264

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
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED	
	SEPTEMBER 29, 2000	OCTOBER 1, 1999
Cash flows from operating activities:		
Net income (loss)	\$ (167,406)	\$ 12,896
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Amortization of goodwill and other intangibles	146,508	228
In-process research and development	39,800	--
Depreciation	8,683	3,760
Changes in assets and liabilities:		
Accounts receivable	2,943	(17,593)
Inventories	(28,642)	(8,103)

Prepaid expenses and other assets	(6,265)	(1,644)
Accounts payable	(3,455)	7,541
Income taxes payable	(324,275)	--
Accrued and other liabilities	(28,535)	7,720
	-----	-----
Net cash provided by (used in) operating activities	(360,644)	4,805
Cash flows from investing activities:		
Acquisition of property and equipment	(15,819)	(6,141)
Net cash received from DiviCom acquisition	393,739	--
Proceeds from maturities of short-term investments	33,609	--
Purchases of short-term investments	(62,163)	(57,576)
	-----	-----
Net cash provided by (used in) investing activities	349,366	(63,717)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of Common Stock, net	5,124	68,214
Borrowings under bank line	--	840
Repayments under bank line and term loan	--	(1,270)
	-----	-----
Net cash provided by financing activities	5,124	67,784
Effect of exchange rate changes on cash and cash equivalents	(767)	113
	-----	-----
Net increase (decrease) in cash and cash equivalents	(6,921)	8,985
Cash and cash equivalents at beginning of period	24,822	9,178
	-----	-----
Cash and cash equivalents at end of period	\$ 17,901	\$ 18,163
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid during the period	\$ 27	\$ 99
Income taxes paid during the period	\$ 330,054	\$ 49
Non-cash financing activities:		
Issuance of Common Stock and assumption of options for acquisitions	\$1,798,804	\$ --

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) which Harmonic Inc. (the "Company") considers necessary for a fair presentation of the results of operations for the unaudited interim periods covered and the consolidated financial condition of the Company at the date of the balance sheets. The quarterly financial information is unaudited. 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 and Form 10-K/A which were filed with the Securities and Exchange Commission on March 31, 2000 and May 15, 2000, respectively. 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, 2000, or any other future period.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

In June 2000 the Financial Accounting Standards Board ("FASB") issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 was previously amended by SFAS No. 137, "Deferral of the Effective Date of SFAS No. 133," which deferred the effective date of SFAS No. 133 to fiscal years commencing after June 15, 2000. The Company will adopt SFAS Nos. 133 and 138 as of the beginning of fiscal 2001. The Company is continuing to evaluate the impact of SFAS Nos. 133 and 138, but currently does not expect the impact from the adoption of these standards to be material to its financial position or results of operations at this time.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles ("GAAP") to revenue recognition. The Company is required to adopt SAB 101 in the fourth quarter of fiscal 2000. The Company is continuing to evaluate the impact of SAB 101, but currently does not expect any material effects on its financial position or results of operations from the implementation of this SAB.

NOTE 3 - INVENTORIES

	SEPTEMBER 29, 2000	DECEMBER 31, 1999
	-----	-----
IN THOUSANDS	(UNAUDITED)	
Raw materials	\$27,429	\$10,649
Work-in-process	12,482	4,740
Finished goods	42,068	19,921
	-----	-----
	\$81,979	\$35,310
	=====	=====

NOTE 4 - CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents are comprised of highly liquid investments with original maturities of three months or less at time of acquisition. Investments are comprised of U.S. government, state, municipal and county obligations and corporate debt securities with lives ranging from three months to two years. The Company classifies its investments as available for sale in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and states its investments at estimated fair value, with material unrealized gains and losses reported in other comprehensive income. The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in other income and expense. Investments are anticipated to be used for current operations and are, therefore, classified as current assets, even though maturities may extend beyond one year.

At September 29, 2000, short-term investments of \$53.0 million mature in less than one year and \$40.4 million mature between one and two years.

NOTE 5 - NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income available to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Basic net income (loss) per share excludes the dilutive effect of stock options and warrants. Diluted net income (loss) per share gives effect to all dilutive potential common shares

outstanding during a period. In computing diluted net income (loss) per share, the average price for the period is used in determining the number of shares assumed to be purchased from exercise of stock options and warrants.

The following table presents a reconciliation of the numerators and denominators of the Basic and Diluted net income (loss) per share computations for the periods presented below:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 29, 2000	OCTOBER 1, 1999	SEPTEMBER 29 2000	OCTOBER 1, 1999
IN THOUSANDS (UNAUDITED)				
Net income (loss) - (numerator)	\$ (89,670)	\$ 7,692	\$ (167,406)	\$ 12,896
Shares calculation - (denominator):				
Average shares outstanding - basic	57,724	30,179	45,474	27,592
Effect of Dilutive Securities:				
Potential Common Stock relating to stock options and warrants	--	2,657	--	2,672
Average shares outstanding - diluted	57,724	32,836	45,474	30,264
Net income (loss) per share - basic	\$ (1.55)	\$ 0.25	\$ (3.68)	\$ 0.47
Net income (loss) per share - diluted	\$ (1.55)	\$ 0.23	\$ (3.68)	\$ 0.43

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Options to purchase 8.6 million shares of common stock were outstanding during the three and nine month periods ended September 29, 2000, but were not included in the computation of diluted net income (loss) per share because either the options' exercise prices were greater than the average market price of the common stock or inclusion of such options would have been antidilutive. There were no significant options and warrants outstanding during the three and nine month periods ended October 1, 1999 that were not included in the computation of diluted net income per share because the options' exercise prices were greater than the average market price of the common stock. The exercise price ranges of these options were from \$0.15 to \$121.68 per share for the three and nine month periods ended September 29, 2000.

NOTE 6 - COMPREHENSIVE INCOME

The Company's total comprehensive income (loss) was as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 29, 2000	OCTOBER 1, 1999	SEPTEMBER 29, 2000	OCTOBER 1, 1999
IN THOUSANDS (UNAUDITED)				
Net income (loss)	\$ (89,670)	\$ 7,692	\$ (167,406)	\$ 12,896
Change in unrealized income on investments	138	--	123	--

Currency translation	(1,077)	(14)	(517)	122
	-----	-----	-----	-----
Total comprehensive income (loss)	\$ (90,609)	\$7,678	\$ (167,800)	\$13,018
	=====	=====	=====	=====

NOTE 7 - ACQUISITION OF COGENT TECHNOLOGY, INC.

On July 1, 2000, Harmonic completed the acquisition of privately-held Cogent Technology, Inc. ("Cogent") of Santa Cruz, California, a developer of advanced MPEG-2 technology for the migration from analog to digital television on PCI based platforms. Harmonic issued approximately 286,000 shares of common stock at an average market price per share of \$23.78 to the shareholders of Cogent in the stock-for-stock transaction, which was accounted for as a purchase. The average market price per share was based on the average closing price for a four day period through the closing of the acquisition. The purchase price of \$7.9 million was allocated to the acquired assets, in-process research and development, goodwill and other intangible assets. A one-time charge of \$1.1 million was recorded in the third quarter of 2000 for in-process research and development acquired. Goodwill and other intangibles of \$9.1 million are being amortized on a straight-line basis over the estimated useful life of five years. A deferred tax liability of \$2.8 million was recorded and is being recognized as the underlying non-goodwill intangibles are amortized over the estimated useful life of five years. The acquisition is not expected to have a material impact on earnings for the remainder of 2000. Cogent's products and eight employees have been integrated into Harmonic's Convergent Systems division.

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NOTE 8 - ACQUISITION OF DIVICOM BUSINESS

On May 3, 2000, Harmonic completed its merger with C-Cube Microsystems Inc. ("C-Cube") pursuant to the terms of an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") dated October 27, 1999. Under the terms of the Merger Agreement, C-Cube spun off its semiconductor business as a separate publicly traded company prior to the closing. C-Cube then merged into Harmonic and Harmonic therefore acquired C-Cube's DiviCom business. The merger was structured as a tax-free exchange of stock and was accounted for under the purchase method of accounting.

The purchase price of \$1.8 billion includes \$1.6 billion of issued stock, \$155 million in Harmonic stock option costs, and expenses of the transaction of \$9.6 million. The issued stock reflects the conversion of C-Cube common stock into 0.5427 shares of Harmonic stock, totaling 26.4 million shares of Harmonic common stock, at an average market price per share of Harmonic common stock of \$62.00. The average market price per share was based on the average closing price for a period three days before and after the October 27, 1999 announcement of the merger.

Following is a table of the total purchase price, purchase price allocation and annual amortization of the intangible assets acquired (in thousands):

		Annual Amortization -----
Purchase price allocation:		
Net assets of DiviCom business	\$ 138,400	--
Fair value adjustments:		
Accounts receivable	(10,800)	--
Inventory	4,700	--
Accrued liabilities	(17,600)	--
	-----	-----
Total fair value of tangible net assets acquired	114,700	--
Intangible assets acquired:		
Customer base	112,700	\$ 22,540

Developed technology	78,300	15,660
Trademark and tradename	13,900	2,780
Assembled workforce	22,700	4,540
Supply agreement	8,100	1,620
	-----	-----
Total intangibles (excluding goodwill)	235,700	47,140
In-process research and development	38,700	--
Goodwill	1,509,100	301,820
Deferred tax liabilities	(96,600)	--
	-----	-----
Total purchase price allocation	\$1,801,600	\$348,960
	=====	=====

The tangible net assets acquired represent the historical net assets of the DiviCom business as of May 2, 2000, adjusted to eliminate intangibles of \$3.8 million arising from C-Cube's acquisition of the DiviCom business in 1996, plus additional cash of \$60 million received as a result of the merger. In addition, under the terms of the Merger Agreement, the Company is liable for all of C-Cube Microsystems' liabilities consisting principally of tax liabilities related to the spin-off of C-Cube's semiconductor business. The net assets acquired included \$333.7 million of cash and other consideration sufficient to pay these liabilities. As required under purchase accounting, the assets and liabilities have been adjusted to fair value.

A customer base represents established relationships with businesses that repeatedly order from a company. The income approach was used to estimate the value of the DiviCom business' customer base by determining the present value of future cash flows generated by existing customers. Key assumptions used in the calculation included an attrition rate of 20%, discount rate of 20% and estimates of revenue growth, cost of sales, operating expenses and tax rate provided by management of the DiviCom business.

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In estimating the value of the trademark and tradename, the relief from royalty method was employed. The relief from royalty method is based on the assumption that in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of the assets. Therefore, a portion of the company's earnings, equal to the after-tax royalty that would have been paid for the use of the trademark and tradename, can be attributed to the company's possession of the trademark and tradename. The trademark and tradename are each being amortized on a straight-line basis over its estimated useful life of five years.

The value of the assembled workforce was derived by estimating the costs to replace the existing employees, including recruiting, hiring and training costs for each category of employee. The value of the assembled workforce is being amortized on a straight-line basis over its estimated useful life of five years.

Harmonic and C-Cube Semiconductor entered into a Supply, License and Development Agreement (Supply Agreement) concurrent with the merger agreement. This separate agreement covers the supply, licensing and development of two encoder chips for Harmonic by the spun-off semiconductor business. The value of the Supply Agreement was derived by using the income approach and is being amortized on a straight line basis over its estimated useful life of five years.

A portion of the purchase price has been allocated to developed technology and in-process research and development ("IPR&D"). Developed technology and IPR&D were identified and valued through extensive interviews, analysis of data provided by the DiviCom business concerning development projects, their stage of development, the time and resources needed to complete them, if applicable, their expected income generating ability and associated risks. The income approach, which includes an analysis of the cash flows, and risks associated with achieving such cash flows, was the primary technique utilized in valuing the developed technology and IPR&D.

Where development projects had reached technological feasibility, they were classified as developed technology and the value assigned to developed technology was capitalized. The developed technology is being amortized on a

straight-line basis over its estimated useful life of five years.

Where the development projects had not reached technological feasibility and had no future alternative uses, they were classified as IPR&D, which was expensed upon the consummation of the merger. The value was determined by estimating the expected cash flows from the projects once commercially viable, discounting the net cash flows back to their present value and then applying a percentage of completion to the calculated value as defined below.

- Net cash flows. The net cash flows from the identified projects were based on estimates of revenue, cost of sales, research and development costs, selling, general and administrative costs and income taxes from those projects. These estimates were based on the assumptions mentioned below. The research and development costs included in the model reflected costs to sustain projects, but excluded costs to bring in-process projects to technological feasibility.

The estimated revenue was based on projections of the DiviCom business for each in-process project. These projections were based on its estimates of market size and growth, expected trends in technology and the nature and expected timing of new product introductions by the DiviCom business and its competitors.

Projected gross margins and operating expenses approximated the DiviCom business' recent historical levels.

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- Discount rate. Discounting the net cash flows back to their present value was based on the industry weighted average cost of capital ("WACC"). The industry WACC was approximately 17%. The discount rate used in discounting the net cash flows from IPR&D was 25%, an 800 basis point increase from the industry WACC.

This discount rate was higher than the industry WACC due to inherent uncertainties surrounding the successful development of the IPR&D, market acceptance of the technology, the useful life of such technology and the uncertainty of technological advances which could potentially impact the estimates described above.

- Percentage of completion. The percentage of completion for each project was determined using costs incurred to date on each project as compared to the remaining research and development to be completed to bring each project to technological feasibility. The percentage of completion varied by individual project ranging from 10% to 80%.

If the projects discussed above are not successfully developed, the sales and profitability of the combined company may be adversely affected in future periods.

The following unaudited pro forma summary presents the combined statement of operations as if the merger had been completed on January 1, 1999 and does not purport to be indicative of what would have occurred had the merger actually been completed on such date or of results which may occur in the future.

	NINE MONTHS ENDED	
	----- SEPTEMBER 29, 2000 -----	OCTOBER 1, 1999 -----
Net sales	\$ 250,400	\$ 254,600
Net loss	(276,541)	(264,300)
Net loss per share		
Basic and diluted	\$ (4.79)	\$ (4.90)

Weighted average shares		
Basic and diluted	57,724	53,992

Adjustments made in arriving at the pro forma unaudited results of operations include amortization of goodwill and other intangibles and related tax adjustments. No effect has been given to cost savings or operating synergies that may be realized as a result of the merger.

Based on the finalization of the valuation, purchase price allocation, integration plans and other factors, the effects of the merger may change from those included in the above pro forma summary. A change in the value assigned to long-term tangible and intangible assets and liabilities could result in a reallocation of the purchase price and a change in the adjustments. The statement of operations effect of these changes will depend on the nature and amount of the assets or liabilities adjusted.

NOTE 9 - SEGMENT REPORTING

Operating segments are defined as components of an enterprise that engage in business activities for which separate financial information is available and evaluated by the chief operating decision maker. Prior to the acquisition of the DiviCom business, Harmonic was organized as one operating segment. On

May 3, 2000, Harmonic completed the acquisition of the DiviCom business, thus changing its organizational structure. The merged company has been organized into two operating segments: Broadband Access Networks ("BAN") for fiber optic systems, and Convergent Systems ("CS") for digital headend systems. These segments do not correspond to the pre-merger companies in significant ways. For example, Harmonic's TRANsend and CyberStream product lines are part of the CS segment. Each of these operating segments require their own development and marketing strategies and therefore have separate management teams, however, a worldwide sales, sales support and systems integration group supports both operating segments.

The results of the reportable segments are derived directly from the Company's management reporting system. These results reported below are based on Harmonic's method of internal reporting and are not necessarily in conformity with generally accepted accounting principles. Subsequent to the acquisition of DiviCom, management commenced measuring the performance of each segment based on several metrics, including revenue, and income or loss from operations. These results are used, in part, to evaluate the performance of, and allocate resources to each of the segments. Revenue for the prior periods has been reclassified to reflect the new organizational structure. The reclassified revenue for the prior periods reflects only Harmonic's revenue, and not the historical revenue of the DiviCom business. However, income or loss from operations is not available and is impractical to prepare for the periods prior to the quarter ended June 30, 2000, and accordingly, has not been presented. Net income or loss, and assets and liabilities are not internally reported by business segment.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 29, 2000	OCTOBER 1, 1999	SEPTEMBER 29, 2000	OCTOBER 1, 1999
Net Sales:				
Broadband Access Networks	\$ 40,335	\$50,284	\$149,337	\$114,010
Convergent Systems	27,836	2,340	61,660	6,779
Total net sales	\$ 68,171	\$52,624	\$210,997	\$120,789
Income (loss) from operations:				
Broadband Access Networks	\$ (128)			
Convergent Systems	(7,404)			
Total segment loss from operations	(7,532)			

Amortization of goodwill and other intangibles	(87,998)
In-process research and development	(1,100)
Interest and other income, net	3,377
Corporate and unallocated costs, and eliminations	(4,694)
Loss before income taxes	<u>\$ (97,947)</u>

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NOTE 10 - LEGAL PROCEEDINGS

Securities Litigation

Between June 28 and August 25, 2000, twelve actions were filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. The actions were brought on behalf of a purported class of persons who purchased the Company's publicly traded securities between March 27 and June 26, 2000. The complaints allege that, by making statements regarding the Company's prospects and customers and its acquisition of C-Cube, the defendants violated sections 10(b) and 20(A) of the Securities Exchange Act of 1934. In addition, one complaint alleges that the defendants violated section 11 of the Securities Act of 1933 by filing a false or misleading registration statement in connection with the C-Cube acquisition. On June 29, 2000, another action alleging a violation of section 11 was filed on behalf of the same purported class in the Superior Court of the State of California for the County of Santa Clara. On July 26, 2000, the defendants removed the action to federal court. The Court has entered orders relating and consolidating all of the securities class actions and permitting plaintiffs to file a consolidated amended complaint.

A derivative action purporting to be on behalf of the Company was filed against its directors in the Superior Court for the County of Santa Clara on September 5, 2000. The Company also was named as a nominal defendant. The complaint is based on allegations similar to those found in the securities class actions and claims that the defendants breached their fiduciary duties by, among other things, causing the Company to violate federal securities laws. The derivative action was removed to the United States District Court for the Northern District of California on September 20, 2000. On September 29, 2000, the Court issued an order finding that the derivative action is not related to the securities class actions. On October 11, 2000, the parties agreed to a forty-five day extension of the time for defendants to respond to the complaint.

Based on its review of the complaints filed to date, the Company believes that it has meritorious defenses to the securities class actions and the derivative action and intends to defend them vigorously. There can be no assurance, however, that the Company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations.

NOTE 11 - SUBSEQUENT EVENT

On November 10, the Company concluded an agreement with a domestic customer of its Broadband Access Networks division to accept the return of up to \$4.1 million of products. The customer recently informed the Company of a decision to reduce significantly the scope and delay the timing of certain network construction projects. To maintain its ongoing relationship with the customer, Harmonic agreed to the return of products. Because this agreement was reached after the Company's announcement of third quarter results on October 18 but before filing of its Form 10-Q for the third quarter, the Company has recorded a return provision as a reduction of net sales in its Condensed Consolidated Statements of Operations for the quarter ended September 29, 2000. The effect of this provision was to increase the net loss for the quarter ended September 29, 2000, and to reduce net income for the nine months ended September 29, 2000, by \$941,000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding future revenue, gross margins, and expense levels, future capital expenditures, future cash flows, future borrowing capability and the merger with C-Cube Microsystems, Inc. ("C-Cube") and the reorganization of our business organization. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those set forth under "Factors That May Affect Future Results of Operations" below and elsewhere in this Form 10-Q.

OVERVIEW

Harmonic Inc. ("Harmonic" or the "Company") designs, manufactures and markets digital and fiber optic systems for delivering video, voice and data services over cable, satellite and wireless networks. Historically, almost all of our sales were derived directly or indirectly from sales of fiber optic transmission systems to cable television operators. With the introduction of our TRANsend digital headend products in 1997 and the subsequent purchase of New Media Communication Ltd., which changed its name to Harmonic Data Systems Ltd., we broadened our product offering to enable delivery of digital video, voice and data over satellite and wireless networks and cable systems.

In order to further expand our digital systems capability, the Company entered into an Agreement and Plan of Merger and Reorganization with C-Cube on October 27, 1999, pursuant to which C-Cube merged into Harmonic (the "Merger Agreement"). Under the terms of the Merger Agreement, C-Cube spun off its semiconductor business as a separate publicly traded company. C-Cube then merged into Harmonic and Harmonic therefore acquired C-Cube's DiviCom business, which provides MPEG-2 encoding products and systems for digital television. The merger was structured as a tax-free exchange of stock and has been accounted for under the purchase method of accounting. In the merger, each share of common stock of C-Cube was converted into 0.5427 shares of Harmonic common stock. The purchase price, including merger-related costs, was approximately \$1.8 billion.

The merger closed on May 3, 2000, and Harmonic has consolidated the results of the DiviCom business in its financial statements from that date forward. The merged company has been organized into two operating segments, Broadband Access Networks ("BAN") for fiber optic systems and Convergent Systems ("CS") for digital headend systems. While the two segments have been organized generally around the pre-merger Harmonic fiber optics systems and the DiviCom digital headend systems, respectively, these segments do not correspond to the pre-merger companies in significant ways. For example, Harmonic's TRANsend and CyberStream product lines are now part of the CS segment. Each of these segments has its own separate management team, with a worldwide sales, sales support and systems integration group supporting both segments.

RESULTS OF OPERATIONS

NET SALES

The Company's net sales increased 30% from \$52.6 million in the third quarter of 1999 to \$68.2 million in the third quarter of 2000. For the nine month periods, net sales increased 75% from \$120.8 million in the first nine months of 1999 to \$211.0 million in the first nine months of 2000. The increases in net sales for both periods primarily reflected the inclusion of sales from the DiviCom business, offset in part by decreased net sales in the third quarter of 2000 in the BAN segment.

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While the Company's sales increased significantly in the third quarter of 2000

compared to the third quarter of 1999, sales were below the Company's expectations due to lower sales within the BAN segment. BAN sales for the third quarter of 2000 declined by 20% as compared to the third quarter of 1999, primarily due to significantly reduced sales to AT&T. For the first nine months of 2000, BAN sales increased by 31% compared to the first nine months of 1999 due to increased customer acceptance of the Company's products, particularly PWRBlazer Scaleable Optical Nodes and optical transmitters. CS sales increased modestly during the third quarter compared to the second quarter of 2000 due to the inclusion of three months of DiviCom sales in the third quarter compared to approximately two months in the second quarter. International sales represented 43% of net sales in the third quarter of 2000 compared to 26% in the third quarter of 1999 due to unusually high domestic sales in the third quarter of 1999 and the CS division's slightly higher percentage of international sales.

GROSS PROFIT

Gross profit decreased from \$23.1 million (44% of net sales) in the third quarter of 1999 to \$19.1 million (28% of net sales) in the third quarter of 2000. The decrease was due primarily to low margins within CS resulting from high fixed costs associated with the manufacturing and systems integration groups, amortization of intangibles related to the C-Cube and Cogent acquisitions of \$4.8 million, and a less favorable product mix in BAN which included a lower percentage of transmitters. For the nine month periods, gross profit increased from \$51.5 million (43% of net sales) in the first nine months of 1999 to \$79.8 million (38% of net sales) in the first nine months of 2000. The increase in gross profit for the nine month period of 2000 was due principally to higher sales volume resulting from inclusion of DiviCom and increased sales within BAN, partially offset by amortization of intangibles related to the C-Cube and Cogent acquisitions of \$7.7 million and high fixed costs within CS. The amortization of intangibles reduced the gross margin percentage by 7% and 4% for the three and nine month periods of 2000.

RESEARCH AND DEVELOPMENT

Research and development expenses increased from \$4.8 million (9% of net sales) in the third quarter of 1999 to \$16.0 million (24% of net sales) in the third quarter of 2000. For the nine month periods, research and development expenses increased from \$12.0 million (10% of net sales) in 1999 to \$34.0 million (16% of net sales) in 2000. The increases in absolute dollars were principally attributable to the inclusion of DiviCom, which historically has spent a higher percentage of sales on research and development than has Harmonic, and higher payroll and prototype expenses. Harmonic anticipates that research and development expenses will continue to increase in absolute dollars, although they may vary as a percentage of net sales.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased from \$8.9 million (17% of net sales) in the third quarter of 1999 to \$20.1 million (29% of net sales) in the third quarter of 2000. For the nine month periods, selling, general and administrative expenses increased from \$23.7 million (20% of net sales) in 1999 to \$45.9 million (22% of net sales) in 2000. The increases in absolute expenses were primarily due to inclusion of DiviCom, as well as higher payroll and recruiting expenses, principally for the expansion of the sales and marketing organizations to provide greater customer focus and support for sales of new products. In addition, higher promotional expenses also contributed to the increase. The increases in selling, general and administrative expenses as a percentage of net sales were principally attributable to decreased net sales. Harmonic anticipates that selling, general and administrative expenses will continue to increase in absolute dollars, although such expenses may vary as a percentage of net sales.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangible assets of approximately \$1.8 billion were recorded in connection with the C-Cube merger and Cogent acquisition, resulting in amortization of \$83.3 million for the third quarter of 2000. See Notes 7 and 8 to the unaudited Condensed Consolidated Financial Statements for the three and

nine month periods ended September 29, 2000. Goodwill and intangibles are being amortized over 5 years, and such amortization is expected to result in substantial net losses over the amortization period.

IN-PROCESS RESEARCH AND DEVELOPMENT

The Company recorded one-time charges of \$1.1 million and \$38.7 million to operations during the three and nine months ended September 29, 2000 for acquired in-process technology in connection with the Cogent acquisition and C-Cube merger. See Notes 7 and 8 to the unaudited Condensed Consolidated Financial Statements for the three and nine month periods ended September 29, 2000. These amounts were expensed on the acquisition dates in accordance with generally accepted accounting principles because the acquired technology had not yet reached technological feasibility and had no future alternative uses.

INTEREST AND OTHER INCOME, NET

Interest and other income, net, increased from \$0.9 million in the third quarter of 1999 to \$3.4 million in the third quarter of 2000 and from \$1.7 million for the nine month period of 1999 to \$9.3 million for the nine month period of 2000. The increases were due primarily to interest earned on cash received in the merger, and to a lesser extent, interest earned on cash proceeds resulting from the Company's public offering of common stock in April 1999. On August 15, 2000, the majority of the cash received in the merger was used to pay taxes incurred on the spin-off of C-Cube's semiconductor business. The Company expects interest income to decrease in future periods.

INCOME TAXES

The provisions for income taxes for both periods of 1999 and 2000 were based on estimated tax rates of 25% and 38%, respectively. The increase in the effective rate reflects the full utilization of remaining net operating loss carryovers and research and development credit carryovers in 1999. The Company expects to have an effective annual rate that approximates statutory rates in year 2000 and beyond on income before amortization of goodwill, other intangibles and related tax effects thereon, and acquired in-process research and development.

LIQUIDITY AND CAPITAL RESOURCES

As of September 29, 2000, cash and cash equivalents and short term investments totaled \$111.3 million, of which \$60 million was received under the terms of the Merger Agreement. Harmonic received additional cash of approximately \$320 million in connection with the merger for the estimated tax liability related to the spin off of C-Cube's semiconductor business, which the Company paid on August 15, 2000. In addition, the Company completed a public offering of its common stock in April 1999, raising approximately \$58.3 million, net of underwriting discounts and offering expenses. The Company also received \$4.0 million from exercise of a warrant in connection with the public offering.

Cash used in operations was \$360.6 million in the first nine months of 2000 compared to cash provided by operations of \$4.8 million in the first nine months of 1999. The increase in cash used in operations in the first nine months of 2000 was primarily due to the payment of the spin off tax assumed in the merger, and an increase in inventory and a decrease in accrued and other liabilities.

The Company has a bank line of credit facility, which provides for borrowings up to \$10.0 million with a \$3.0 million equipment term loan sub-limit and expires December 31, 2000. Borrowings pursuant to the line bear interest at the bank's prime rate (prime rate plus 0.5% under the term loan) and are payable monthly. There were no outstanding borrowings at September 29, 2000 under the line. The Company has letters of credit issued under the line of \$1.2 million.

Additions to property, plant and equipment were approximately \$6.1 million and \$15.8 million in the first nine months of 1999 and 2000, respectively. The increase in 2000 was due principally to higher expenditures for manufacturing and test equipment associated with expansion of production capacity, leasehold improvements, which allowed the Company to expand into space during the first quarter of 2000 that had been previously subleased, and initial expenditures for an enterprise resource planning (ERP) software system. In connection with the

merger, Harmonic has entered into lease agreements to relocate employees from certain existing facilities and expects to incur significant costs associated with leasehold improvements commencing in the fourth quarter of 2000. Costs incurred to date on the Company's new ERP system are included in property, plant and equipment for which depreciation will commence when the software implementation is completed, currently scheduled for the second quarter of 2001.

The Company believes that its existing liquidity sources, including \$60 million of cash received pursuant to the merger, its bank line of credit facility, and anticipated funds from operations will satisfy its cash requirements for at least the next twelve months.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows of Harmonic due to adverse changes in market prices and rates. Harmonic is exposed to market risk because of changes in interest rates and foreign currency exchange rates as measured against the U.S. Dollar and currencies of Harmonic's subsidiaries.

Harmonic has a number of international subsidiaries each of whose sales are generally denominated in U.S. dollars. In addition, the Company has various international branch offices which provide sales support and systems integration services. While Harmonic does not anticipate that near-term changes in exchange rates will have a material impact on future operating results, fair values or cash flows, Harmonic cannot assure you that a sudden and significant change in the value of local currencies would not harm Harmonic's financial condition and results of operations.

Harmonic's exposure to market risk for changes in interest rates relate primarily to its investment portfolio of marketable debt securities of various issuers, types and maturities. Harmonic does not use derivative instruments in its investment portfolio, and its investment portfolio only includes highly liquid instruments with an original maturity of less than two years. These investments are classified as available for sale and are carried at estimated fair value, with material unrealized gains and losses reported in other comprehensive income. There is risk that losses could be incurred if the Company were to sell any of its securities prior to stated maturity.

FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

Our Operating Results Are Likely To Fluctuate Significantly And May Fail To Meet Or Exceed The Expectations Of Securities Analysts Or Investors, Causing Our Stock Price To Decline

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Our operating results have fluctuated in the past and are likely to continue to fluctuate in the future, on an annual and a quarterly basis, as a result of several factors, many of which are outside of our control. Some of the factors that may cause these fluctuations include:

- the level and timing of capital spending of our customers, both in the U.S. and in foreign markets;
- changes in market demand;
- the timing and amount of customer orders;
- the timing of revenue from systems contracts which may span several quarters;
- competitive market conditions;
- our unpredictable sales cycles;
- our ability to integrate the acquired DiviCom business into Harmonic's operations;

- new product introductions by our competitors or by us;
- changes in domestic and international regulatory environments;
- market acceptance of new or existing products;
- the cost and availability of components, subassemblies and modules;
- the mix of our customer base and sales channels;
- the mix of our products sold;
- our development of custom products and software;
- the level of international sales; and
- economic conditions specific to the cable and satellite industries, and general economic conditions.

In addition, we often recognize a substantial portion of our revenues in the last month of the quarter. We establish our expenditure levels for product development and other operating expenses based on projected sales levels, and expenses are relatively fixed in the short term. Accordingly, variations in timing of sales can cause significant fluctuations in operating results. In addition, because a significant portion of our business is derived from orders placed by a limited number of large customers, the timing of such orders can also cause significant fluctuations in our operating results. Our expenses for any given quarter are typically based on expected sales and if sales are below expectations in any given quarter, the adverse impact of the shortfall on our operating results may be magnified by our inability to adjust spending to compensate for the shortfall. As a result of all these factors, our operating results in one or more future periods may fail to meet or exceed the expectations of securities analysts or investors. In that event, the trading price of our common stock would likely decline. In this regard, due to lower than expected sales to AT&T and lower than expected sales in the CS segment during the second quarter, and lower than expected sales in the BAN segment in the third quarter, we failed to meet our internal expectations, as well as the expectations of securities analysts and investors during the second and third quarters of 2000, and the price of our common stock declined significantly.

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We Depend On Cable and Satellite Industry Capital Spending For A Substantial Portion Of Our Revenue And Any Decrease Or Delay In Capital Spending In These Industries Would Negatively Impact Our Resources, Operating Results And Financial Condition.

Prior to the merger with C-Cube, almost all of Harmonic's historic sales had been derived from sales to cable television operators and broadcasters, and it expects these sales to constitute a substantial majority for the foreseeable future. Almost all of the DiviCom business' historic sales have been derived from sales to satellite operators, telephone companies and cable operators. Demand for the combined company's products in the future will depend on the magnitude and timing of capital spending by cable television operators, broadcasters, satellite operators and telephone companies for constructing and upgrading of their systems.

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

- access to financing;
- annual budget cycles;
- the status of federal, local and foreign government regulation of telecommunications and television broadcasting;
- overall demand for communication services and the acceptance of new video, voice and data services;
- evolving industry standards and network architectures;

- competitive pressures;
- discretionary customer spending patterns;
- general economic conditions.

In the past, specific factors contributing to reduced capital spending have included:

- uncertainty related to development of digital video and cable modem industry standards;
- delays associated with the evaluation of new services and system architectures by many cable television operators;
- emphasis on marketing and customer service strategies by cable television operators instead of construction of networks; and
- general economic conditions in international markets.

In addition to the above factors, the timing of deployment of our equipment by our customers can be subject to a number of risks, including the availability of skilled engineering and technical personnel, the availability of other equipment such as fiber optic cable, and the need for local zoning and licensing approvals. We believe that changes in our customers' deployment plans have in recent quarters delayed, and may in the future delay, the receipt of new orders or the release of existing backlog. Since the majority of our sales have been to relatively few customers, a delay in equipment deployment at any one customer could have a material adverse effect on our sales in a particular quarter. Although the Company's sales increased in the third quarter of 2000 compared to the third quarter of 1999 due to the inclusion of DiviCom, sales were lower than in the second quarter of 2000 and were below our expectations in the BAN segment.

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BAN sales in the third quarter of 2000 were below the levels achieved in the third quarter of 1999 due to reduced sales to AT&T. In addition, BAN sales in the third quarter of 2000 were lower than the second quarter due to slower sales across the Company's base of cable customers. Moreover, BAN sales in the third quarter of 2000 were lower than announced in the Company's October 18, 2000 press release because of an agreement the Company reached on November 10, 2000 with a customer of the Company's BAN division to accept the return of up to \$4.1 million of products. The customer recently informed the Company of a decision to reduce significantly the scope and delay the timing of certain network construction projects. To maintain its ongoing relationship with the customer, the Company agreed to the return of the products. The Company has recorded a provision for the return in its financial statements for the quarter ended September 29, 2000. For a more detailed discussion regarding risks related to AT&T and other major customers, see "Our Customer Base Is Concentrated And The Loss Of One Or More Of Our Key Customers Would Harm Our Business. The Loss Of AT&T Or Any Other Key Customer Would Have A Negative Effect On Our Business" below. The lower than expected CS sales in the second quarter of 2000 were due in part to slower spending by satellite operators and to the impact of organizational changes resulting from the C-Cube merger. While CS sales increased modestly in the third quarter of 2000 compared to the second quarter of 2000, the increase was due to the inclusion of three months of DiviCom sales in the third quarter compared to approximately two months in the second quarter, CS sales generally remained weak. The Company is unable to predict when BAN sales will increase. Further, cable television capital spending can be subject to the effects of seasonality, with fewer construction and upgrade projects typically occurring in winter months and otherwise being affected by inclement weather.

Our Customer Base Is Concentrated And The Loss Of One Or More Of Our Key Customers Would Harm Our Business. The Loss Of AT&T Or Any Other Key Customer Would Have A Negative Effect On Our Business.

Historically, a significant majority of our sales and sales of DiviCom have been to relatively few customers. Sales to Harmonic's ten largest customers in 1998, 1999 and the first nine months of 2000 accounted for approximately 66%, 75% and 57% of net sales, respectively. Due in part to the consolidation of ownership of

domestic cable television and direct broadcast satellite systems, we expect that sales to relatively few customers will continue to account for a significant percentage of net sales of the combined company for the foreseeable future. Sales to two customers accounted for 14% and 11% of our net sales in the third quarter of 2000, and sales to two customers accounted for 12% and 10% of our net sales in the prior quarter. In the third quarter of 1999, sales to AT&T accounted for 52% of our net sales and have declined as a percentage of net sales in each quarter since the third quarter of 1999. We cannot assure you that sales to other customers will compensate for any further reduction in sales to AT&T nor can we predict the impact of the proposed breakup of AT&T on our future sales to AT&T. Almost all of our sales are made on a purchase order or system contract basis, and none of our customers has entered into a long-term agreement requiring it to purchase our products. The loss of, or any reduction in orders from, a significant customer would harm our business.

We Have Experienced Difficulties Integrating The DiviCom Business Of C-Cube.

In addition to the risks generally associated with acquisitions, there are a number of significant risks directly associated with our merger with DiviCom. In particular, the successful combination of Harmonic and DiviCom requires substantial attention from management. The anticipated benefits of the merger will not be achieved unless the operations of DiviCom are successfully combined with those of Harmonic in a timely manner. To date, we have had difficulty in assimilating and integrating disparate information systems and personnel into a combined corporation. These difficulties are increased due to our limited personnel, management and other resources. The successful combination of the two companies requires integration of the companies' product offerings and the coordination of their research and development and sales and marketing efforts. The diversion of the attention of management from the day-to-day operations of the combined company, or difficulties encountered in the transition and integration process, could materially and adversely affect our business, financial condition and operating results. The process of combining the two organizations has caused interruption of, and a loss of momentum in, the activities of both of the organizations' businesses, and we believe that this diversion may have caused certain customers to defer purchasing decisions. In addition, our success depends, in part, on the retention and integration of key management, technical, marketing, sales and customer support personnel of the DiviCom business, and, in particular, the retention of these key employees during the transitional period following the merger. We have experienced the

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loss of certain key employees since the merger, principally due to intense competition for qualified technical and other personnel in the San Francisco Bay Area. The loss of key employees and managers has adversely affected the acquired DiviCom business and could continue to adversely affect our business and operating results.

We Depend On Our International Sales And Are Subject To The Risks Associated With International Operations, Which May Negatively Affect Our Profitability.

Sales to customers outside of the United States in 1998, 1999 and the first nine months of 2000 represented 43%, 30% and 37% of net sales, respectively, and we expect that international sales will continue to represent a substantial portion of our net sales for the foreseeable future. Our international operations are subject to a number of risks, including:

- changes in foreign government regulations and telecommunications standards;
- import and export license requirements, tariffs, taxes and other trade barriers;
- fluctuations in currency exchange rates;
- difficulty in collecting accounts receivable;
- the burden of complying with a wide variety of foreign laws, treaties and technical standards;
- difficulty in staffing and managing foreign operations; and

- political and economic instability.

While our international sales are typically denominated in U.S. dollars, fluctuations in currency exchange rates could cause our products to become relatively more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country. Gains and losses on the conversion to U.S. dollars of accounts receivable, accounts payable and other monetary assets and liabilities arising from international operations may contribute to fluctuations in operating results. Furthermore, payment cycles for international customers are typically longer than those for customers in the United States. Unpredictable sales cycles could cause us to fail to meet or exceed the expectations of security analysts and investors for any given period. Further, foreign markets may not continue to develop.

We Must Be Able To Manage Expenses And Inventory Risks Associated With Meeting The Demand Of Our Customers.

From time to time, we receive indications from our customers as to their future plans and requirements to ensure that we will be prepared to meet their demand for our products. In the past, however, we have received such indications but, on occasion, we did not ultimately receive purchase orders for our products. We must be able to effectively manage expenses and inventory risks associated with meeting potential demand for our products. In addition, if we fail to meet customers' supply expectations, we may lose business from such customers. If we expend resources and purchase materials to manufacture products and such products are not purchased, our business and operating results could suffer.

The Markets In Which We Operate Are Intensely Competitive And Many Of Our Competitors Are Larger And More Established.

The markets for cable television fiber optics systems and digital video broadcasting systems are extremely competitive and have been characterized by rapid technological change and declining average selling prices.

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Harmonic's competitors in the cable television fiber optics systems business include significantly larger corporations such as ADC Telecommunications, ANTEC (a company owned in part by AT&T), Motorola, Philips and Scientific-Atlanta. Additional competition could come from new entrants in these markets, such as Lucent Technologies and Cisco Systems.

In the digital and video broadcasting systems business, we compete with vertically integrated system suppliers including Motorola, Scientific-Atlanta, Tandberg, Thomson Broadcast Systems and Philips, as well as more specialized suppliers including SkyStream and Terayon.

Most of our competitors are substantially larger and have greater financial, technical, marketing and other resources than Harmonic. Many of these large organizations are in a better position to withstand any significant reduction in capital spending by customers in these markets. They often have broader product lines and market focus and will therefore 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 therefore have more long standing and established relationships with domestic and foreign customers. We may not be able to compete successfully in the future and competition may harm our business.

If any of our competitors' products or technologies were to become the industry standard, our business could be seriously harmed. For example, U.S. cable operators have to date mostly purchased proprietary digital systems from Motorola and Scientific-Atlanta. While certain operators have made limited purchases of the "open" systems provided by Harmonic, we cannot assure you that our digital products will find broad market acceptance with U.S. cable operators. In addition, companies that have historically not had a large presence in the broadband communications equipment market have begun recently to expand their market share through mergers and acquisitions. The continued consolidation of our competitors could have a significant negative impact on us. Further, our competitors, particularly competitors of our digital and video broadcasting systems' business, 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 resulting in lower gross margins.

Broadband Communications Markets Are Relatively Immature And Characterized By Rapid Technological Change.

Broadband communications markets are relatively immature, making it difficult to accurately predict the markets' future growth rates, sizes or technological directions. In view of the evolving nature of these markets, it is possible that cable television operators, telephone companies or other suppliers of broadband wireless and satellite services will decide to adopt alternative architectures or technologies that are incompatible with our current or future products. If we are unable to design, develop, manufacture and sell products that incorporate or are compatible with these new architectures or technologies, our business will suffer.

We Need To Develop And Introduce New And Enhanced Products In A Timely Manner To Remain Competitive.

Broadband communications markets are characterized by continuing technological advancement, changes in customer requirements and evolving industry standards. To compete successfully, we must design, develop, manufacture and sell new or enhanced products that provide increasingly higher levels of performance and reliability. However, we may not be able to successfully develop or introduce these products, if our products:

- are not cost effective,

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- are not brought to market in a timely manner,
- are not in accordance with evolving industry standards and architectures, or
- fail to achieve market acceptance.

In addition, to successfully develop and market our planned products for digital applications, we will be required to retain and attract new personnel with experience and expertise in the digital arena. Competition for qualified personnel is intense. We may not be successful in retaining and attracting qualified personnel.

Also, to successfully develop and market certain of our planned products for digital applications, we may be required to enter into technology development or licensing agreements with third parties. We cannot assure you that we will be able to enter into any necessary technology development or licensing agreement on terms acceptable to us, 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, accordingly, could materially and adversely affect our business and operating results.

We Need To Effectively Manage Our Growth.

The growth in our business has placed, and is expected to continue to place, a significant strain on our personnel, management and other resources. This strain has been exacerbated by the acquisition of DiviCom and the subsequent loss of numerous DiviCom employees. Our ability to manage any future growth effectively will require us to attract, train, motivate and manage new employees successfully, to integrate new employees into our overall operations, to retain key employees and to continue to improve our operational, financial and management systems. If we fail to manage our future growth effectively, our business could suffer.

Competition For Qualified Personnel Is Intense, And We May Not Be Successful In Attracting And Retaining Personnel.

Our future success will depend, to a significant extent, on the ability of our management to operate effectively, both individually and as a group. We are dependent on our ability to retain and motivate high caliber personnel, in

addition to attracting new personnel. Competition for qualified technical and other personnel is intense, particularly in the San Francisco Bay Area and Israel, and we may not be successful in attracting and retaining such personnel.

Competitors and others have in the past and may in the future attempt to recruit our employees. While our employees are required to sign standard agreements concerning confidentiality and ownership of inventions, we generally do not have employment contracts or noncompetition agreements with any of our personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel, particularly engineers and other technical personnel, could negatively affect our business.

The C-Cube Merger And Cogent Acquisition Have Resulted In The Recording Of Substantial Goodwill And Other Intangible Assets And Reporting Of Substantial Net Losses Without Any Corresponding Tax Deduction.

Goodwill and other intangible assets of approximately \$1.7 billion were recorded in connection with the C-Cube merger and Cogent acquisition as disclosed in Notes 7 and 8 to the unaudited Condensed Consolidated Financial Statements for the three and nine month periods ended September 29, 2000. Goodwill and intangibles are being amortized over 5 years, and this amortization is expected to result in substantial net losses over the amortization period. The amortization of goodwill and intangibles are not deductible for tax purposes which will result in a provision for income taxes despite a substantial reported net loss.

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We Are Liable For C-Cube's Pre-Merger Tax Liabilities, Including Tax Liabilities Resulting From The Spin-Off Of Its Semiconductor Business.

The spin-off of C-Cube's semiconductor business gave rise to a significant tax liability of approximately \$320 million based on a valuation of the semiconductor business of \$1.1 billion. The estimated liability was paid on August 15, 2000. C-Cube determined the valuation by using the volume weighted average price on May 3, 2000, the first trading day following the spin-off, which resulted in a share price of \$21.74. Under state law, Harmonic generally is liable for all of C-Cube's debts, including C-Cube's liability for taxes resulting from the spin-off. C-Cube retained and transferred to Harmonic in the merger an amount of cash and other consideration sufficient to pay this liability as well as all other tax liabilities of C-Cube and its subsidiaries for periods prior to the merger. The merger agreement stipulates that Harmonic will be indemnified by the spun-off semiconductor business if the cash reserves are not sufficient to satisfy all of C-Cube's tax liabilities for periods prior to the merger. If for any reason, the spun-off semiconductor business does not have sufficient cash to pay such taxes, or if there are additional taxes due with respect to the non-semiconductor business and Harmonic cannot be indemnified by C-Cube, Harmonic generally will remain liable, and such liability could have a material adverse effect on Harmonic.

Due To The Structure Of The Merger Transaction, Harmonic Is Liable For C-Cube's General Pre-Merger Liabilities And Any Liabilities Relating To C-Cube's Semiconductor Business For Which The Spun-off Semiconductor Business Is Unable To Indemnify Harmonic.

The merger of C-Cube into Harmonic, with Harmonic as the surviving entity, resulted in our assuming all of the liabilities of C-Cube at the time of the merger. Pursuant to the merger agreement, Harmonic is indemnified by the spun-off semiconductor business for liabilities associated with C-Cube's historic semiconductor business. However, if the spun-off semiconductor business is unable to fulfill its indemnification obligations to Harmonic or if general liability claims not specifically associated with C-Cube's historic semiconductor business are asserted, we would have to assume such obligations. Those obligations could have a material adverse effect on us.

We May Be Subject To Risks Associated With Other Acquisitions.

We have made and may make investments in complementary companies, products or technologies. If we make acquisitions, we could have difficulty assimilating or retaining the acquired companies' personnel and operations or integrating the acquired technology or products into ours. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses. Moreover, our profitability may suffer because of acquisition-related costs or amortization costs for acquired goodwill and other intangible assets. Furthermore, we may have to incur debt or issue equity securities to pay for any future acquisitions, the issuance of which could be dilutive to our existing shareholders. If we are unable to successfully address any of these risks, our business, financial condition and operating results could be harmed.

Difficulties In The Development And Production Of Video Encoding Chips By C-Cube's Spun-off Semiconductor Business May Adversely Impact Us.

The DiviCom business and C-Cube semiconductor business collaborated on the production and development of two video encoding microelectronic chips prior to the merger. In connection with the merger, Harmonic and the spun-off semiconductor business entered into a contractual relationship under which Harmonic will have access to certain of the spun-off semiconductor business technologies and products which the DiviCom business previously depended on for its product and service offerings.

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However, under the contractual relationships between Harmonic and the spun-off semiconductor business, the semiconductor business does not have a firm commitment to continue the development of video encoding microelectronic chips. As a result, the semiconductor business may choose not to continue future development of the chips for any reason. The semiconductor business may also encounter in the future technological difficulties in the production and development of the chips. If the spun-off semiconductor business is not able to or does not sustain its development and production efforts in this area, we may not be able to fully recognize the benefits of the acquisition. See "Supply, License and Development Agreement" at page 60 of the joint proxy statement filed with the Securities and Exchange Commission on March 23, 2000, for further details of Harmonic's business relationship with the spun-off semiconductor business after the merger.

If Sales Forecasted For A Particular Period Are Not Realized In That Period Due To The Unpredictable Sales Cycles Of Our Products, Our Operating Results For That Period Will Be Harmed.

The sales cycles of many of our products, particularly our newer products and products sold internationally, are typically unpredictable and usually involve:

- a significant technical evaluation;
- a commitment of capital and other resources by cable, satellite, and other network operators;
- delays associated with cable, satellite, and other network operators' internal procedures to approve large capital expenditures;
- time required to engineer the deployment of new technologies or services within broadband networks; and
- testing and acceptance of new technologies that affect key operations.

For these and other reasons, our sales cycles generally last three to six months, but can last up to 12 months. If orders forecasted for a specific customer for a particular quarter do not occur in that quarter, our operating results for that quarter could be substantially lower than anticipated.

As a result of the merger, a significant portion of our revenue will be derived from systems contracts. A substantial portion of DiviCom's revenues are from systems contracts which include a combination of product sales as well as installation and integration services. Revenue forecasts are based on estimated timing of the systems installation and integration. Because the systems

contracts on the average span three quarters, the timing of revenue is difficult to predict and could result in lower than expected revenue in any particular quarter.

Our Failure To Adequately Protect Our Proprietary Rights May Adversely Affect Us.

We currently hold 23 issued United States patents and 9 issued foreign patents, and have 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 scope of the claims sought by us, if at all. 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

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secret protection may be unavailable or limited in certain foreign countries in which we do business or may do business in the future.

We believe that the future success of our business will depend on our ability to translate the technological expertise and innovation of our personnel into new and enhanced products. 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. Nevertheless, we cannot assure you that the steps taken by us will prevent misappropriation of our technology. In addition, we have taken in the past, and may take in the future, legal action 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. Such litigation could result in substantial costs and diversion of resources and could harm our business and operating results.

In order to successfully develop and market certain of our planned products for digital applications, we may be required to enter into technology development or licensing agreements with third parties. Although many companies are often willing to enter into such technology development or licensing agreements, we cannot assure you that such agreements will be negotiated on terms acceptable to us, 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 cause our business to suffer.

As is common in our industry, we have from time to time received notification from other companies of intellectual property rights held by those companies upon which our products may infringe. Any claim or litigation, with or without merit, could be costly, time consuming and could result in a diversion of management's attention, which could harm our business. If we were found to be infringing on the intellectual property rights of any third party, we could be subject to liabilities for such infringement, which could be material, and could be required to seek licenses from other companies or to refrain from using, manufacturing or selling certain products or using certain processes. Although holders of patents and other intellectual property rights often offer licenses to their patent or other intellectual property rights, we cannot assure you that licenses would be offered, that the terms of any offered license would be acceptable to us or that failure to obtain a license would not cause our operating results to suffer.

We Purchase Several Key Components, Subassemblies And Modules Used In The Manufacture Or Integration Of Our Products From Sole Or Limited Sources, And We Are Increasingly Dependent On Contract Manufacturers.

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. Our reliance on sole or limited suppliers, particularly foreign suppliers, and our increasing reliance on subcontractors 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. In particular, certain optical components have been recently in short supply and are available only from a small number of suppliers, including sole source suppliers. While we expend considerable efforts to qualify additional optical component sources, consolidation of suppliers in the industry (including the acquisition of Etek Dynamics and the proposed acquisition of SDL Inc. by JDS Uniphase) and the small number of viable alternatives have limited the results of these efforts. Certain key elements of our digital headend products are provided by a sole foreign supplier. We do not generally maintain long-term agreements with any of our suppliers or subcontractors. An inability to obtain adequate 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 safety stocks of these components, subassemblies and modules. As a result of this investment in inventories, we may be subject to an increasing risk of inventory obsolescence in the future, which could harm our business.

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We May Need Additional Capital In The Future And May Not Be Able To Secure Adequate Funds On Terms Acceptable To Us.

We currently anticipate that our existing cash balances including cash received pursuant to the merger, and our available line of credit and cash flow expected to be generated from future operations will be sufficient to meet our liquidity needs for at least the next twelve months. However, we may need to raise additional funds if our estimates change or prove inaccurate or in order for us to respond to unforeseen technological or marketing hurdles or to take advantage of unanticipated opportunities.

In addition, we expect to review other potential acquisitions that would complement our existing product offerings or enhance our technical capabilities. While we have no other current agreements or negotiations underway with respect to any potential acquisition, any future transaction of this nature could require potentially significant amounts of capital. Funds may not be available at the time or times needed, or available on terms acceptable to us. If adequate funds are not available, or are not available on acceptable terms, we may not be able to take advantage of market opportunities, to develop new products or to otherwise respond to competitive pressures.

We Face Risks Associated With Having Important Facilities And Resources Located In Israel.

Harmonic maintains two facilities in the State of Israel with a total of approximately 90 employees. The personnel at these facilities represent a significant portion of our research and development operations. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel, and any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could significantly harm our business. We cannot assure you that the protraction or escalation of current tensions in the Middle East will not adversely affect our business.

In addition, most of our employees in Israel are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. We cannot predict the effect of these obligations on Harmonic in the future.

Securities Class Action Claims

Between June 28 and August 25, 2000, twelve actions were filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. The actions were brought on behalf of a purported class of persons who purchased the Company's publicly

traded securities between March 27 and June 26, 2000. The complaints allege that, by making statements regarding the Company's prospects and customers and its acquisition of C-Cube, the defendants violated sections 10(b) and 20(A) of the Securities Exchange Act of 1934. In addition, one complaint alleges that the defendants violated section 11 of the Securities Act of 1933 by filing a false or misleading registration statement in connection with the C-Cube acquisition. On June 29, 2000, another action alleging a violation of section 11 was filed on behalf of the same purported class in the Superior Court of the State of California for the County of Santa Clara. On July 26, 2000, the defendants removed the action to federal court. The Court has entered orders relating and consolidating all of the securities class actions and permitting plaintiffs to file a consolidated amended complaint.

A derivative action purporting to be on behalf of the Company was filed against its directors in the Superior Court for the County of Santa Clara on September 5, 2000. The Company also was named as a nominal defendant. The complaint is based on allegations similar to those found in the securities class actions and claims that the defendants breached their fiduciary duties by, among other things, causing the Company to violate federal securities laws.

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The derivative action was removed to the United States District Court for the Northern District of California on September 20, 2000. On September 29, 2000, the Court issued an order finding that the derivative action is not related to the securities class actions. On October 11, 2000, the parties agreed to a forty-five day extension of the time for defendants to respond to the complaint.

Based on its review of the complaints filed to date, the Company believes that it has meritorious defenses to the securities class actions and the derivative action and intends to defend them vigorously. There can be no assurance, however, that the Company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations.

Our Stock Price May Be Volatile.

The market price of our common stock has fluctuated in the past and is likely to fluctuate in the future. In addition, the securities markets have experienced significant price and volume fluctuations and the market prices of the securities of technology companies have been especially volatile. Investors may be unable to resell their shares of our common stock at or above their purchase price. In the past, companies that have experienced volatility in the market price of their stock have been the object of securities class action litigation.

We are currently the objects of securities class actions and derivative action litigation, and this could result in substantial costs and a diversion of management's attention and resources.

Based on its review of the complaints filed to date, the Company believes that it has meritorious defenses to the securities class actions and the derivative action and intends to defend them vigorously. There can be no assurance, however, that the Company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations.

Our Certificate Of Incorporation And Bylaws And Delaware Law Contain Provisions That Could Discourage A Takeover.

Provisions of our Amended and Restated Certificate of Incorporation, Bylaws, and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders.

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PART II

ITEM 1. LEGAL PROCEEDINGS

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ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS

At the Annual Meeting of Stockholders of the Company, held on July 13, 2000, the following matters were acted upon by the stockholders of the Company:

1. The election of Anthony J. Ley, Moshe Nazarathy, Baryn S. Futa, E. Floyd Kvamme, David A. Lane, Barry D. Lemieux and Michel L. Vaillaud as directors of the Company, each to hold office for a one-year term or until a successor is elected and qualified;
2. The approval of an amendment to the 1995 Stock Purchase Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 1,600,000 shares;
3. The ratification of the appointment of PricewaterhouseCoopers, LLP as the independent accountants of the Company for the fiscal year ending December 31, 2000.

The number of shares of Common Stock outstanding and entitled to vote at the Annual Meeting was 57,078,599 and 49,332,719 shares were represented in person or by proxy. The results of the voting on each of the matters presented to stockholders at the Annual Meeting are set forth below:

	VOTES FOR -----	VOTES AGAINST -----	ABSTENTIONS -----	BROKER NON-VOTE -----
1. Election of Directors				
a. Anthony J. Ley	48,522,753	809,966		
b. Moshe Nazarathy	48,892,504	440,215		
c. Baryn S. Futa	48,581,155	751,564		
d. E. Floyd Kvamme	48,580,229	752,490		
e. David A. Lane	48,942,426	390,293		
f. Barry D. Lemieux	48,940,633	392,086		
g. Michel L. Vaillaud	48,579,050	753,669		
2. Amendment to Company's 1995 Stock Purchase Plan	47,617,083	1,621,910	93,726	
3. Ratification of Independent Accountants	49,148,392	150,777	33,550	

ITEM 5. OTHER INFORMATION

Pursuant to Rule 14a-4 (c) (1) under the Securities Exchange Act of 1934, the proxies provided to management shall confer on management discretionary authority to vote with respect to any non Rule 14a-8 stockholder proposals raised at the Company's annual meeting of stockholders, without any discussion of the matter in the proxy statement, unless a stockholder has notified the Company of such a proposal at least 45 days prior to the month and day on which the Company mailed its prior year's proxy statement. Since the Company mailed its proxy statement for the 2000 annual meeting of stockholders on June 13, 2000, the deadline for receipt of any such stockholder proposal for the 2001 annual meeting of stockholders is April 28, 2001.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

Exhibit #	Description of Document
- 27.1	Financial Data Schedule

B. Reports on Form 8-K

Amended Current Report on Forms 8-K and 8-K/A filed on May 2, 2000 and July 17, 2000, respectively, relating to the merger of C-Cube Microsystems Inc. with and into Harmonic.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 13, 2000

HARMONIC INC.
(Registrant)

By: /s/ Robin N. Dickson

Robin N. Dickson
Chief Financial Officer
(Principal Financial and Accounting
Officer)

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HARMONIC INC.

INDEX TO EXHIBITS

EXHIBIT #	DESCRIPTION OF DOCUMENT
- 27.1	Financial Data Schedule

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