HARMONIC INC
Form 10-Q
November 04, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 27, 2013

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

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

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

4300 North First Street
San Jose, CA 95134
(408) 542-2500
(Address, including zip code, and telephone number, including area code, of registrant’s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares of the registrant’s Common Stock, $.001 par value, outstanding on October 14, 2013 was 100,808,712.

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PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HARMONIC INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 27, 2013	December 31, 2012
	(In thousands, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$93,330	$96,670
Short-term investments	75,966	104,506
Accounts receivable, net	85,069	85,920
Inventories	40,369	64,270
Deferred income taxes	20,144	21,870
Prepaid expenses and other current assets	14,757	23,636
Total current assets	329,635	396,872
Property and equipment, net	35,551	38,122
Goodwill	197,956	212,518
Intangibles, net	37,878	58,447
Other assets	16,133	11,572
Total assets	$617,153	$717,531
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$19,987	$25,447
Income taxes payable	577	1,797
Deferred revenue	34,115	33,235
Accrued liabilities	33,118	42,415
Total current liabilities	87,797	102,894
Income taxes payable, long-term	12,155	49,309
Other non-current liabilities	11,694	11,915
Total liabilities	111,646	164,118
Commitments and contingencies (Note 14)		
Stockholders’ equity:		
Preferred stock, $0.001 par value, 5,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.001 par value, 150,000 shares authorized; 100,901 and 114,193 shares issued and outstanding at September 27, 2013 and December 31, 2012, respectively	101	114
Additional paid-in capital	2,345,512	2,432,790
Accumulated deficit	(1,839,639)	(1,879,026)
Accumulated other comprehensive loss	(467)	(465)
Total stockholders’ equity	505,507	553,413
Total liabilities and stockholders’ equity	$617,153	$717,531

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

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HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
	(In thousands, except per share amounts)			
Product revenue	$98,713	$97,881	$277,965	$300,731
Service revenue	24,205	22,510	63,753	58,159
Net revenue	122,918	120,391	341,718	358,890
Product cost of revenue	52,747	53,995	146,916	167,039
Service cost of revenue	13,379	11,518	33,953	31,430
Total cost of revenue	66,126	65,513	180,869	198,469
Gross profit	56,792	54,878	160,849	160,421
Operating expenses:				
Research and development	24,560	25,586	75,631	77,205
Selling, general and administrative	32,527	31,132	100,220	93,862
Amortization of intangibles	2,001	2,179	6,099	6,548
Restructuring and related charges	259	—	925	—
Total operating expenses	59,347	58,897	182,875	177,615
Loss from operations	(2,555)	(4,019)	(22,026)	(17,194)
Interest income, net	47	128	141	363
Other income (expense), net	230	(164)	(70)	119
Loss from continuing operations before income taxes	(2,278)	(4,055)	(21,955)	(16,712)
(Benefit from) provision for income taxes	(38,953)	414	(45,723)	367
Income (loss) from continuing operations	36,675	(4,469)	23,768	(17,079)
Income (loss) from discontinued operations, net of taxes (including gain on disposal of $14,813, net of taxes, for the nine months ended September 27, 2013)	91	(3,761)	15,619	1,338
Net income (loss)	$36,766	$(8,230)	$39,387	$(15,741)
Basic net income (loss) per share from:				
Continuing operations	$0.36	$(0.04)	$0.22	$(0.15)
Discontinued operations	$—	$(0.03)	$0.14	$0.01
Net income (loss)	$0.36	$(0.07)	$0.36	$(0.13)
Diluted net income (loss) per share from:				
Continuing operations	$0.36	$(0.04)	$0.22	$(0.15)
Discontinued operations	$—	$(0.03)	$0.14	$0.01
Net income (loss)	$0.36	$(0.07)	$0.36	$(0.13)
Shares used in per share calculation:				
Basic	101,144	116,517	108,695	116,946
Diluted	102,723	116,517	109,879	116,946

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

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HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
	(In thousands)			
Net income (loss)	$36,766	$(8,230)	$39,387	$(15,741)
Other comprehensive income (loss), net of tax:				
Changes in cumulative translation adjustments	462	403	(8)	317
Foreign currency translation adjustments	462	403	(8)	317
Changes in unrealized gain (loss) on investment arising during the period	52	5	11	30
Gain on investments	52	5	11	30
Other comprehensive income before tax	514	408	3	347
Income tax expense (benefit) related to items of other comprehensive income (loss)	17	3	5	(11)
Other comprehensive income (loss), net of tax	497	405	(2)	358
Comprehensive income (loss)	$37,263	$(7,825)	$39,385	$(15,383)

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

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HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended September 27, 2013	September 28, 2012
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$39,387	$(15,741)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of intangibles	20,569	22,004
Depreciation	12,365	11,337
Stock-based compensation	11,953	14,122
Gain on sale of discontinued operations, net of tax	(14,813)	—
Loss on impairment of fixed assets	149	—
Deferred income taxes	(10,647)	1,627
Provision for inventories	2,813	2,466
Allowance for doubtful accounts, returns and discounts	1,161	2,012
Excess tax benefits from stock-based compensation	—	(80)
Other non-cash adjustments, net	1,220	560
Changes in assets and liabilities:		
Accounts receivable	(310)	13,240
Inventories	10,509	(85)
Prepaid expenses and other assets	8,522	1,847
Accounts payable	(5,418)	364
Deferred revenue	5,127	3,307
Income taxes payable	(39,209)	(1,482)
Accrued and other liabilities	(8,244)	(5,352)
Net cash provided by operating activities	35,134	50,146
Cash flows from investing activities:		
Purchases of investments	(54,773)	(94,123)
Proceeds from maturities of investments	50,681	44,876
Proceeds from sales of investments	31,506	30,486
Purchases of property and equipment	(11,249)	(9,850)
Proceeds from sale of discontinued operations, net of selling costs	43,527	—
Net cash provided by (used in) investing activities	59,692	(28,611)
Cash flows from financing activities:		
Payments for repurchase of common stock	(103,496)	(14,388)
Proceeds from issuance of common stock, net	5,355	4,922
Excess tax benefits from stock-based compensation	—	80
Net cash used in financing activities	(98,141)	(9,386)
Effect of exchange rate changes on cash and cash equivalents	(25)	103
Net (decrease) increase in cash and cash equivalents	(3,340)	12,252
Cash and cash equivalents at beginning of period	96,670	90,983
Cash and cash equivalents at end of period	$93,330	$103,235

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

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HARMONIC INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) which Harmonic Inc. (“Harmonic,” or the “Company”) considers necessary for a fair statement of the results of operations for the interim periods covered and the consolidated financial condition of the Company at the date of the balance sheets. This Quarterly Report on Form 10-Q should be read in conjunction with the Company’s audited consolidated financial statements contained in the Company’s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 1, 2013 (“2012 Form 10-K”). The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2013, or any other future period. The Company’s fiscal quarters are based on 13-week periods, except for the fourth quarter, which ends on December 31.

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

Discontinued Operations

On March 5, 2013, the Company completed the sale of its cable access HFC business to Aurora Networks (“Aurora”) for $46.0 million in cash. The Condensed Consolidated Statements of Operations have been retrospectively adjusted to present the cable access HFC business as discontinued operations, as described in “Note 3, Discontinued Operations”. Unless noted otherwise, all discussions herein with respect to the Company’s unaudited condensed consolidated financial statements relate to the Company’s continuing operations.

Use of Estimates

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

Significant Accounting Policies

The Company’s significant accounting policies are described in Note 2 to its audited Consolidated Financial Statements included in its 2012 Form 10-K. There have been no significant changes to these policies during the nine months ended September 27, 2013.

Reclassifications

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

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued Accounting Standard Update (“ASU”) 2011-11, “Disclosures about offsetting assets and liabilities”. This guidance enhances disclosure requirements about the nature of an entity’s right to offset. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed, and the related net exposure. The new guidance became effective for the Company beginning in the first quarter of fiscal 2013 and it did not have any impact on the Company’s Consolidated Financial Statements.

In July 2012, the FASB issued ASU 2012-2, “Intangibles - Goodwill and Other”, which allows an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived asset is impaired for determining whether it is necessary to perform the quantitative impairment test. This accounting standard update became effective for the

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Company beginning in the first quarter of fiscal 2013 and did not have any impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-2, "Comprehensive Income", which requires reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. The Company adopted this new guidance in the first quarter of fiscal 2013 and included the required disclosures.

In March 2013, the FASB issued ASU 2013-4, "Obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date". The update provides requirements for the recognition, measurement and disclosure of an entity's reasonable expectation of its obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. This guidance requires an entity to disclose the nature and amount of any such obligation, as well as other information about the obligation. The Company does not expect the adoption of ASU 2013-04 will have a material impact on its financial position, results of operations or cash flows. The guidance is effective for the Company beginning in the first quarter of its 2014 fiscal year and should be applied prospectively.

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon De-recognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity". The ASU addresses accounting for a cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The guidance is effective for the Company beginning in the first quarter of its 2014 fiscal year and should be applied prospectively. The Company does not expect the adoption of ASU 2013-05 will have a material impact on its financial position, results of operations or cash flows.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists". Under certain circumstances, unrecognized tax benefits should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance is effective for the Company beginning in the first quarter of 2014. The Company is currently evaluating the impact this guidance may have on its financial position, results of operations and cash flows.

NOTE 3: DISCONTINUED OPERATIONS

On February 18, 2013, the Company entered into an Asset Purchase Agreement with Aurora pursuant to which the Company agreed to sell its cable access HFC business for $46.0 million in cash. On March 5, 2013, the sale transaction closed and the Company received gross proceeds of $46.0 million from the sale and recorded a net gain of $15.0 million in connection with the sale in the first quarter of fiscal 2013, adjusted by ($0.2) million in the second quarter of fiscal 2013, primarily related to adjustments on inventory and fixed assets sold to Aurora, for a net gain of $14.8 million.

In accordance with ASC 205 "Presentation of financial statements – Discontinued Operations", a business is classified as a discontinued operation when: (i) the operations and cash flows of the business can be clearly distinguished and have been or will be eliminated from our ongoing operations; (ii) the business has either been disposed of or is classified as held for sale; and (iii) the Company will not have any significant continuing involvement in the operations of the business after the disposal transactions.

On March 5, 2013, the Company entered into a transition services agreement ('TSA") with Aurora to provide contract manufacturing for up to five months and other various support, including providing order fulfillment, taking warranty calls, attending to product returns from customers, providing cost accounting analysis, receiving payments from customers and remitting such payments to Aurora for up to two months. The TSA fees are a fixed amount per month and were determined based on the Company's estimated cost of delivering the transition services. In addition, on April 24, 2013, the Company and Aurora signed a sublease agreement for the Company's Milpitas warehouse for the remaining period of the lease. The Company and Aurora later agreed to limit the services provided under the agreement to sales order processing support and quote support through May 2013, warehouse facilities support through July 2013, accounts payable support through June 2013, and accounts receivable collection support through

October 2013, and the TSA fees were amended accordingly.

The Company determined that the cash flows generated from these transactions are both insignificant and are considered indirect cash flows. As a result, the sale of the cable access HFC business is appropriately presented as discontinued operations. The TSA billing to Aurora in the three and nine months ended September 27, 2013 was $48,000 and $977,000, respectively, and it was recorded in the Condensed Consolidated Statements of Operations under income from continuing operations as an

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offset to the expenses incurred to deliver the transition services. The table below provides details on the income statement caption under which the TSA billing was recorded (in thousands):

	Three months ended September 27, 2013	Nine months ended
Product cost of revenue	$41	$577
Research and development	—	21
Selling, general and administrative	7	379
Total TSA billing to Aurora	$48	$977

Included within the "Prepaid expenses and other current assets" ending balance at September 27, 2013 on the Condensed Consolidated Balance Sheet is $0.2 million in receivables from customers invoiced on Aurora's behalf. Included within the "Accrued liabilities" ending balance at September 27, 2013 is $0.2 million due to Aurora primarily for invoicing to customers made on Aurora's behalf. There is no outstanding payable to third party vendors on Aurora's behalf and there is no outstanding receivable from Aurora for purchases made on its behalf, as the Company ceased making purchases on Aurora's behalf at the end of May 2013.

The Company recorded a gain of $14.8 million for the nine months ended September 27, 2013, in connection with the sale of the cable access HFC business, calculated as follows (in thousands):

Gross Proceeds		$46,000
Less : Carrying value of net assets		
Inventories, net	$10,579	
Prepaid expenses and other current assets	612	
Property and equipment, net	1,180	
Goodwill de-recognized	14,547	
Deferred revenue	(4,499)	
Accrued liabilities	(939)	
Total net assets sold and de-recognized		$21,480
Less : Selling cost		$2,473
Less : Tax effect		$7,234
Gain on disposal, net of taxes		$14,813

Since the Company has one reporting unit, upon the sale of the cable access HFC business, approximately $14.5 million of the carrying value of goodwill was allocated to the cable access HFC business based on the relative fair value of the cable access HFC business to the fair value of the Company. The remaining carrying value of goodwill was tested for impairment, and the Company determined that goodwill was not impaired as of March 29, 2013.

The results of operations associated with the cable access HFC business are presented as discontinued operations in the Company's Condensed Consolidated Statements of Operations for all periods presented. Revenue and the components of net income related to the discontinued operations for the three and nine months ended September 27, 2013 and September 28, 2012 were as follows:

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Revenue	$161	$16,291	$9,717	$38,147
Operating income	$154	$3,070	$669	$5,193
Less : provision for (benefit from) income taxes	57	6,831	(137)	3,855
Add : Gain (loss) on disposal, net of taxes	(6)	—	14,813	—
Income (loss) from discontinued operations, net of taxes	$91	$(3,761)	$15,619	$1,338

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NOTE 4: SHORT-TERM INVESTMENTS

The following table summarizes the Company's short-term investments (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of September 27, 2013				
State, municipal and local government agencies bonds	$36,195	$41	$(3)	$36,233
Corporate bonds	32,376	16	(11)	32,381
Commercial paper	3,348	—	—	3,348
U.S. federal government bonds	4,001	3	—	4,004
Total short-term investments	$75,920	$60	$(14)	$75,966
As of December 31, 2012				
Certificates of deposit	$1,603	$—	$—	$1,603
State, municipal and local government agencies bonds	59,009	45	(4)	59,050
Corporate bonds	31,568	4	(10)	31,562
Commercial paper	10,287	1	—	10,288
U.S. federal government bonds	2,003	—	—	2,003
Total short-term investments	$104,470	$50	$(14)	$104,506

The following table summarizes the maturities of the Company's short-term investments (in thousands):

	September 27, 2013	December 31, 2012
Less than one year	$50,782	$76,779
Due in 1 - 2 years	25,184	27,727
Total short-term investments	$75,966	$104,506

Realized gains and losses from the sale of investments for the three and nine months ended September 27, 2013 and September 28, 2012 were not material.

Impairment of Investments

The Company monitors its investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. A decline of fair value below amortized costs of debt securities is considered other-than-temporary if the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of the entire amortized cost basis. At the present time, the Company does not intend to sell its investments that have unrealized losses in accumulated other comprehensive loss. In addition, the Company does not believe that it is more likely than not that it will be required to sell its investments that have unrealized losses in accumulated other comprehensive loss before the Company recovers the principal amounts invested. The Company believes that the unrealized losses are temporary and do not require an other-than-temporary impairment, based on its evaluation of available evidence as of September 27, 2013.

As of September 27, 2013, there were no individual available-for-sale securities in a material unrealized loss position and the amount of unrealized losses on the total investment balance was insignificant.

NOTE 5: FAIR VALUE MEASUREMENTS

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

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

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

- Level 1 — Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company primarily uses broker quotes for valuation of its short-term investments. The forward exchange contracts are classified as Level 2 because they are valued using quoted market prices and other observable data for similar instruments in an active market.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company uses the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. During the nine months ended September 27, 2013, there were no nonrecurring fair value measurements of assets and liabilities subsequent to initial recognition.

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The following table sets forth the fair value of the Company's financial assets and liabilities measured at fair value based on the three-tier fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
As of September 27, 2013				
Cash equivalents				
Money market funds	$58,220	$—	$—	$58,220
Short-term investments				
State, municipal and local government agencies bonds	—	36,233	—	36,233
Corporate bonds	—	32,381	—	32,381
Commercial paper	—	3,348	—	3,348
U.S. federal government bonds	4,004	—	—	4,004
Prepaids and other current assets				
Foreign exchange forward contracts	—	5	—	5
Total assets measured and recorded at fair value	$62,224	$71,967	$—	$134,191
Accrued liabilities				
Foreign exchange forward contracts	$—	$381	$—	$381
Total liabilities measured and recorded at fair value	$—	$381	$—	$381

	Level 1	Level 2	Level 3	Total
As of December 31, 2012				
Cash equivalents				
Money market funds	$54,923	$—	$—	$54,923
Corporate bonds with maturity less than 90 days	—	3,614	—	3,614
U.S. federal government bonds with maturity less than 90 days	3,005	—	—	3,005
Short-term investments				
Certificates of deposit	—	1,603	—	1,603
State, municipal and local government agencies bonds	—	59,050	—	59,050
Corporate bonds	—	31,562	—	31,562
Commercial paper	—	10,288	—	10,288
U.S. federal government bonds	2,003	—	—	2,003
Prepaids and other current assets				
Foreign exchange forward contracts	—	344	—	344
Total assets measured and recorded at fair value	$59,931	$106,461	$—	$166,392
Accrued liabilities				
Foreign exchange forward contracts	$—	$143	$—	$143
Total liabilities measured and recorded at fair value	$—	$143	$—	$143

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NOTE 6: BALANCE SHEET COMPONENTS

The following tables provide details of selected balance sheet components (in thousands):

	September 27, 2013	December 31, 2012
Accounts receivable, net:		
Accounts receivable	$94,283	$95,515
Less: allowances for doubtful accounts, returns and discounts	(9,214)	(9,595)
Accounts receivable, net	$85,069	$85,920
Inventories:		
Raw materials	$3,188	$10,731
Work-in-process	1,378	4,347
Finished goods	35,803	49,192
Total inventories	$40,369	$64,270
Property and equipment, net:		
Furniture and fixtures	$8,104	$7,856
Machinery and equipment	111,182	108,262
Leasehold improvements	7,686	7,612
Property and equipment, gross	126,972	123,730
Less: accumulated depreciation and amortization	(91,421)	(85,608)
Property and equipment, net	$35,551	$38,122

NOTE 7: GOODWILL AND IDENTIFIED INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the nine months ended September 27, 2013 are as follows (in thousands):

Balance at beginning of period	$212,518
Reduction in goodwill associated with the sale of the cable access HFC Business	(14,547)
Foreign currency translation adjustment	(15)
Balance at end of period	$197,956

The following is a summary of identified intangible assets (in thousands):

	September 27, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Identifiable intangibles:						
Developed core technology	$136,145	$(116,918)	$19,227	$136,145	$(102,449)	$33,696
Customer relationships/contracts	67,098	(52,381)	14,717	67,098	(48,150)	18,948
Trademarks and tradenames	11,361	(10,210)	1,151	11,361	(9,145)	2,216
Maintenance agreements and related relationships	7,100	(4,317)	2,783	7,100	(3,513)	3,587
Total identifiable intangibles	$221,704	$(183,826)	$37,878	$221,704	$(163,257)	$58,447

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Amortization expense for the identifiable purchased intangible assets for the three and nine months ended September 27, 2013 and September 28, 2012 was allocated as follows (in thousands):

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Included in cost of revenue	$4,763	$5,048	$14,470	$15,456
Included in operating expenses	2,001	2,179	6,099	6,548
Total amortization expense	$6,764	$7,227	$20,569	$22,004

The estimated future amortization expense of purchased intangible assets with definite lives is as follows (in thousands):

	Cost of Revenue	Operating Expenses	Total
Year ended December 31,			
2013 (remaining 3 months)	$4,763	$1,997	$6,760
2014	13,745	6,775	20,520
2015	719	5,783	6,502
2016	—	4,096	4,096
2017	—	—	—
Total future amortization expense	$19,227	$18,651	$37,878

NOTE 8: RESTRUCTURING AND RELATED CHARGES

Omneon Restructuring

The Company has restructuring accruals for excess lease facilities related to the closure of the Omneon headquarters in Sunnyvale, California. The accrual was based on future rent payments, net of expected sublease income, to be made through the end of the lease term in June 2013. The following table summarizes the activity in the Omneon restructuring accrual during the nine months ended September 27, 2013 (in thousands):

	Excess Facilities
Balance at December 31, 2012	$869
Cash payments	(897)
Accretion	28
Balance at September 27, 2013	—

HFC Restructuring

As a result of the sale of the cable access HFC business in March 2013, the Company recorded $16,000 and $617,000 of restructuring charges under “Income from discontinued operations” in the three and nine months ended September 27, 2013, respectively. The restructuring charge for the nine months ended September 27, 2013 consisted of $522,000 of severance and benefits and $95,000 of contract termination costs. The severance and benefits are related to the termination of nine of the Company's employees by the Company as a result of the sale of the HFC business, and the reimbursement to Aurora, pursuant to the amended TSA, of severance payable by Aurora as a result of its subsequent termination of ten U.S. employees hired from the Company, in connection with Aurora's purchase of the HFC business. Three of the employees terminated by the Company were required to work to the end of the term of the TSA and, therefore, the Company recorded their severance ratably over their service period. The following table summarizes the activity in the HFC restructuring accrual during the nine months ended September 27, 2013 (in thousands):

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	Severance	Contract Termination	Total
Balance at December 31, 2012	$—	$—	$—
Restructuring charges in discontinued operations	403	124	527
Adjustments to restructuring provisions	119	(29)	90
Cash payments	(492)	(95)	(587)
Balance at September 27, 2013	30	—	30

The Company anticipates that the remaining restructuring accrual balance of $30,000 will be paid out by the end of the fourth quarter of fiscal 2013.

Harmonic 2013 Restructuring

The Company implemented a series of restructuring plans in fiscal 2013 to reduce costs and improve efficiencies. As a result, the Company recorded restructuring charges of $0.6 million and $1.5 million in the three and nine months ended September 27, 2013, respectively. For the nine months ended September 27, 2013, the restructuring charges consisted of severance and benefits of $1.2 million related to the termination of sixty-three employees worldwide. In addition, the Company wrote–down, to its estimated net realizable value, leasehold improvements and furniture related to its Milpitas warehouse by $149,000, and wrote-down inventory to reflect $151,000 of obsolete inventories arising from the restructuring of its Israel facilities. The following table summarizes the activity in the Harmonic 2013 restructuring accrual during the nine months ended September 27, 2013 (in thousands):

	Severance	Impairment of Leasehold Improvement	Obsolete inventories	Total
Balance at December 31, 2012	$—	$—	$—	$—
Restructuring charges in continuing operations	1,089	101	151	1,341
Adjustments to restructuring provisions	66	48	—	114
Cash payments	(1,060)	—	—	(1,060)
Non-cash write-offs	—	(149)	(151)	(300)
Balance at September 27, 2013	95	—	—	95

Of the restructuring charges in the nine months ended September 27, 2013, $530,000 is included in “Product cost of revenue” and the remaining $925,000 is included in “Operating expenses-restructuring and related charges” in the Condensed Consolidated Statements of Operations. The Company anticipates that the remaining restructuring accrual balance of $95,000 will be paid out or used by the end of the fourth quarter of fiscal 2013.

NOTE 9: CREDIT FACILITIES

Harmonic has a bank line of credit facility with Silicon Valley Bank that provides for borrowings of up to $10.0 million and matures on August 22, 2014. As of September 27, 2013, other than standby letters of credit (Note 14), there were no amounts outstanding under the line of credit facility, and there were no borrowings during the nine months ended September 27, 2013. As of September 27, 2013, the amount available for borrowing under this facility, net of $0.2 million of standby letters of credit, was $9.8 million.

This facility, which became effective in August 2011 and was amended in August 2012, contains a financial covenant that requires Harmonic to maintain a ratio of unrestricted cash, accounts receivable and short term investments to current liabilities (less deferred revenue) of at least 1.75 to 1.00. As of September 27, 2013, the Company’s ratio under that covenant was 4.71 to 1. In the event of noncompliance by Harmonic with the covenants under the facility, including the financial covenant referenced above, Silicon Valley Bank would be entitled to exercise its remedies under the facility, including declaring all obligations immediately due and payable. As of September 27, 2013, Harmonic was in compliance with the covenants under the line of credit facility. Borrowings pursuant to the line would bear interest at the bank’s prime rate (3.25% at September 27, 2013,) or at LIBOR for the desired borrowing period (an annualized rate of 0.18% for a one month borrowing period at September 27, 2013) plus 1.75%, or 1.93%. Borrowings are not collateralized.

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NOTE 10: EMPLOYEE BENEFIT PLANS

Harmonic grants stock options and restricted stock units ("RSUs") pursuant to stockholder approved equity incentive plans. These equity incentive plans are described in detail in Note 13, "Employee Benefit Plans", of Notes to Consolidated Financial Statements in the 2012 Form 10-K

Stock Options and Restricted Stock Units

The following table summarizes the Company's stock option and RSU unit activity during the nine months ended September 27, 2013 (in thousands, except per share amounts):

		Stock Options Outstanding		Restricted Stock Units Outstanding	
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Number of Units	Weighted Average Grant Date Fair Value
Balance at December 31, 2012	10,155	8,900	$6.83	3,938	$ 6.44
Authorized	—	—	—	—	—
Granted	(3,361)	1,360	5.81	1,333	5.84
Options exercised	—	(788)	4.15	—	—
Shares released	—	—	—	(1,622)	6.28
Forfeited or cancelled	2,015	(1,461)	6.92	(418)	6.51
Balance at September 27, 2013	8,809	8,011	$6.90	3,231	$ 6.27

The following table summarizes information about stock options outstanding as of September 27, 2013 (in thousands, except per share amounts):