HARMONIC INC
Form 10-Q
May 07, 2008

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

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 28, 2008

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

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 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 þ **No** o

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o **No** þ

The number of shares outstanding of the Registrant s Common Stock, $.001 par value, was 94,120,317 on April 25, 2008.

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PART I

FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

HARMONIC INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except par value amounts)	March 28, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 182,375	$ 129,005
Short-term investments	96,515	140,255
Accounts receivable, net of allowances of $5,517 and $8,194	56,812	69,302
Inventories	33,086	34,251
Deferred income taxes	3,506	3,506
Prepaid expenses and other current assets	12,116	17,489
Total current assets	384,410	393,808
Property and equipment, net	14,141	14,082
Goodwill	45,811	45,793
Intangibles, net	16,219	17,844
Other assets	4,320	4,252
Total assets	$ 464,901	$ 475,779
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	11,603	20,500
Income taxes payable	508	481
Deferred revenue	29,710	37,865
Accrued liabilities	43,106	51,686
Total current liabilities	84,927	110,532
Accrued excess facilities costs, long-term	8,667	9,907
Income taxes payable, long-term	9,210	8,908
Deferred taxes, long-term	3,454	3,454
Other non-current liabilities	6,594	8,565
Total liabilities	112,852	141,366
Commitments and contingencies (Notes 15 and 16)		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000 shares authorized; no shares issued or outstanding		

Common stock, $0.001 par value, 150,000 shares authorized; 94,109 and 93,772 shares issued and outstanding	94	94
Capital in excess of par value	2,250,880	2,246,875
Accumulated deficit	(1,899,032)	(1,912,386)
Accumulated other comprehensive income (loss)	107	(170)
Total stockholders equity	352,049	334,413
Total liabilities and stockholders equity	$ 464,901	$ 475,779

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

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HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 28, 2008	March 30, 2007
Net sales	$87,277	$ 70,236
Cost of sales	44,998	43,084
Gross profit	42,279	27,152
Operating expenses:		
Research and development	13,193	10,992
Selling, general and administrative	17,448	15,675
Amortization of intangibles	160	111
Total operating expenses	30,801	26,778
Income from operations	11,478	374
Interest income, net	3,017	996
Other expense, net	(214)	(23)
Income before income taxes	14,281	1,347
Provision for income taxes	927	231
Net income	$13,354	$ 1,116
Net income per share:		
Basic	$ 0.14	$ 0.01
Diluted	$ 0.14	$ 0.01
Weighted average shares:		
Basic	94,052	78,963
Diluted	95,212	80,076

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

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

(In thousands)	Three Months Ended March 28, 2008	March 30, 2007
Cash flows from operating activities:		
Net income	$ 13,354	$ 1,116
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of intangibles	1,625	1,075
Depreciation	1,729	1,689
Stock-based compensation	1,520	1,209
Net loss on disposal and impairment of fixed assets	8	(83)
Other non-cash adjustments, net	136	(157)
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	12,424	6,253
Inventories	1,167	(4,553)
Prepaid expenses and other assets	5,191	2,091
Accounts payable	(8,897)	(8,635)
Deferred revenue	(7,479)	(5,252)
Income taxes payable	264	(266)
Accrued excess facilities costs	(1,573)	(1,144)
Accrued and other liabilities	(7,592)	(5,548)
Net cash provided by (used in) operating activities	11,877	(12,205)
Cash flows from investing activities:		
Purchases of investments	(9,990)	(22,165)
Proceeds from maturities and sales of investments	53,765	24,825
Acquisition of property and equipment	(1,796)	(1,410)
Acquisition of Rhozet	(2,828)	-
Net cash provided by investing activities	39,151	1,250
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	2,395	4,537
Repayments under bank line and term loan		(460)
Repayments of capital lease obligations		(21)
Net cash provided by financing activities	2,395	4,056
Effect of exchange rate changes on cash and cash equivalents	(53)	10
Net increase (decrease) in cash and cash equivalents	53,370	(6,889)
Cash and cash equivalents at beginning of period	129,005	33,454

Cash and cash equivalents at end of period	$182,375	$ 26,565
Supplemental disclosure of cash flow information:		
Income tax payments, net	$ 686	$ 63
Interest paid during the period	$	$ 65

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

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HARMONIC INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) which Harmonic Inc. (Harmonic, the Company or we) considers necessary for a fair presentation 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 17, 2008. 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, 2008, or any other future period. The Company s fiscal quarters end on the Friday nearest the calendar quarter end, 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.

Use of Estimates. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America 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.

Reclassifications. The Company has reclassified 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 September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards 157, Fair Value Measurements (SFAS 157). This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB adopted FASB Staff Position SFAS No. 157-2 Effective Date of FASB Statement No. 157 delaying the effective date of SFAS No. 157 for one year for all non financial assets and non financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

Harmonic adopted SFAS No. 157 on January 1, 2008, except as it applies to those non-financial assets and non-financial liabilities as described in FSP FAS No. 157-2, and the adoption of SFAS 157 did not materially impact our financial condition, results of operations or cash flows. See Note 4, Fair Value.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement 115 (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by Harmonic in the first quarter of fiscal 2008. Effective January 1, 2008, Harmonic adopted SFAS 159. The Company did not elect to adopt the fair value option under this Statement except for the amendment to FASB Statement No. 115, Accounting for Certain Investment in Debt and Equity Securities, which was required.

In June 2007, the FASB also ratified Emerging Issues Task Force (EITF) Issue 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 did not have a material impact on our consolidated results of operations, financial condition or cash flows.

In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141(R) on our consolidated results of operations, financial condition or cash flows.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated results of operations, financial condition or cash flows.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 161 on our consolidated results of operations, financial condition or cash flows.

Note 3: Rhozet Acquisition

On July 31, 2007, Harmonic completed the acquisition of Rhozet Corporation, or Rhozet, a privately held company based in Santa Clara, California. Rhozet develops and markets software-based transcoding solutions that facilitate the creation of multi-format video for internet, mobile and broadcast applications. With Rhozet s products, and sometimes in conjunction with other Harmonic products, Harmonic s existing broadcast, cable, satellite and telco customers can deliver video programming over the internet and to mobile services, as well as expand the types of content delivered via their traditional networks to encompass web-based and user-generated content. Harmonic also believes that the acquisition opens up new customer opportunities for Harmonic with Rhozet s customer base of broadcast content creators and online video service providers and is complementary to Harmonic s video-on-demand networking software business acquired in December 2006 from Entone Technologies. These opportunities

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were significant factors to the establishment of the purchase price, which exceeded the fair value of Rhozet s net tangible and intangible assets acquired resulting in the amount of goodwill we have recorded with this transaction. Management has made an allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed.

The purchase price of $16.2 million included $15.5 million of total merger consideration and $0.7 million of transaction expenses. Under the terms of the merger agreement, Harmonic paid or will pay an aggregate of approximately $15.5 million in total merger consideration, comprised of approximately $2.5 million in cash, approximately $10.3 million of common stock issued and to be issued, consisting of approximately 1.1 million shares of Harmonic s common stock, in exchange for all of the outstanding shares of capital stock of Rhozet, and approximately $2.8 million of cash, which was paid in the first quarter of 2008, as provided in the merger agreement, to the holders of outstanding options to acquire Rhozet common stock. Pursuant to the merger agreement, approximately $2.3 million of the total merger consideration, consisting of cash and shares of Harmonic common stock, is being held back by Harmonic for at least 18 months following the closing of the acquisition to satisfy certain indemnification obligations of Rhozet s shareholders. As of March 28, 2008, approximately $2.3 million of purchase consideration, which based on the terms of the merger agreement will be settled through the issuance of approximately 0.2 million shares of Harmonic s common stock and the payment of $0.5 million in cash, has been recorded as a current liability.

The Rhozet acquisition was accounted for under SFAS No. 141 and certain specified provisions of SFAS No. 142. The results of operations of Rhozet are included in Harmonic s Consolidated Statements of Operations from July 31, 2007, the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of the tangible assets acquired and the liabilities assumed at the date of acquisition:

(in thousands)	
Cash acquired	$ 657
Accounts receivable	457
Fixed assets	133
Other tangible assets acquired	59
Intangible assets:	
IP technology	169
Software license	80
Existing technology	4,000
In-process technology	700
Core technology	1,100
Customer contracts	300
Maintenance agreements	600
Tradenames/trademarks	300
Goodwill	8,980
Total assets acquired	17,535
Deferred revenue	(174)
Other accrued liabilities	(1,165)
Net assets acquired	$16,196

The purchase price was allocated as set forth in the table above. The Income Approach which includes an analysis of the markets, cash flows and risks associated with achieving such cash flows, was the primary method used in valuing the identified intangibles acquired. The Discounted Cash Flow method was used to estimate the fair value of the acquired existing technology, in-process technology, maintenance agreements and customer contracts. The Royalty

Savings Method was used to estimate the fair value of the acquired core technology and trademarks/trade names. In the Royalty Savings Method, the value of an asset is estimated by capitalizing the royalties saved because the Company owns the asset. Expected cash flows were discounted at the Company s weighted average cost of capital of 18%. Identified intangible assets, including existing technology and core technology are being amortized over their useful lives of four years; trade name/trademarks are being amortized over their useful lives of five years; customer contracts are being amortized over its useful life of six years and maintenance agreements are being amortized over its useful life of seven years. In-process technology was written off due to the risk that the developments will not be completed or competitive with comparable products. Existing technology is being amortized using the double declining method which reflects the future projected cash flows. The core technology, customer contracts, maintenance agreements and trade name/trademarks are being amortized using the straight-line method. The residual purchase price of $9.0 million has been recorded as goodwill. The goodwill as a result of this acquisition is not expected to be deductible for tax purposes. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill relating to the acquisition of Rhozet is not being amortized and will be tested for impairment annually or whenever events indicate that an impairment may have occurred.

The following unaudited pro forma financial information presented below summarizes the combined results of operations as if the merger had been completed as of the beginning of January 1, 2007. The unaudited pro forma financial information for the three months ended March 30, 2007 combines the results for Harmonic for the three months ended March 30, 2007, and the historical results of Rhozet for the three months ended March 31, 2007. The pro forma financial information is presented for informational purposes only 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.

(in thousands, except per share data)	**Three Months Ended March 30, 2007**
Net sales	$ 70,679
Net loss	$ (13)
Net loss per share basic	$ 0.00
Net loss per share diluted	$ 0.00

Note 4: Fair Value

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards 157, Fair Value Measurements (SFAS 157). This statement establishes a framework for measuring fair value and expands required disclosure about the fair value measurements of assets and liabilities. SFAS 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 157 as of January 1, 2008 and the impact was not significant.

SFAS 157 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 under SFAS 157 must maximize the use of observable inputs and minimize use of unobservable inputs. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

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 s short-term investments primarily use broker quotes in a non-active market for valuation of these securities.

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.

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In accordance with SFAS 157, the following table represents Harmonic s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of March 28, 2008:

(in thousands)	Level 1	Level 2	Level 3	Total
Money market funds	$175,481	$	$	$175,481
Certificates of deposit		2,343		2,343
U.S. corporate debt		60,115		60,115
U.S. government agencies		7,324		7,324
Auction rate securities			26,733	26,733
	$175,481	$69,782	$26,733	$271,996
Forward exchange contracts		5,439		5,439
Total assets	$175,481	$75,221	$26,733	$277,435

Our auction rate securities were measured at fair value on a recurring basis using significant Level 3 inputs as of March 28, 2008. The following table summarizes our fair value measurements using significant Level 3 inputs, and changes therein, for the three month period ended March 28, 2008:

(in thousands)	Level 3
Balance as of January 1, 2008	$
Transfers in to Level 3	34,863
Sales	(8,130)
Balance as of March 28, 2008	$26,733

The fair value of our auction rate securities were measured at March 28, 2008 using Level 3 inputs. The inputs to the valuation model could no longer be valued by observable market data as of March 28, 2008, and as a result, these securities were classified as Level 3 of the fair value hierarchy under the framework of SFAS 157. Significant inputs to our valuation model for auction rate securities as of March 28, 2008 were based on certain assumptions, including interest rate yield curves, credit quality, the estimated time until liquidity returns to the auction rate securities and valuation estimates.

The following is a summary of available-for-sale securities:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 28, 2008				
U.S. government debt securities	$ 7,272	$ 52	$	$ 7,324
Certificates of deposit	2,336	6		2,343
Corporate debt securities	60,068	273	(225)	60,115
Auction rate securities	26,733			26,733
Total	$ 96,409	$331	$(225)	$ 96,515

December 31, 2007				
U.S. government debt securities	$ 15,886	$ 13	$ (12)	$ 15,887
Corporate debt securities	90,247	68	(134)	90,181
Auction rate securities	34,187			34,187
Total	$140,320	$ 81	$(146)	$140,255

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As of March 28, 2008, we held approximately $26.7 million of auction rate securities, or ARSs, classified as short-term investments and we believe the fair value of these securities approximates par value at the balance sheet date. These ARSs, which are invested in preferred securities in closed end funds, all have a credit rating of AA+ or better and the issuers are paying interest at the maximum contractual rate. During the first quarter of 2008, the Company was able to sell $14.5 million of auction rate securities through successful auctions and redemptions. The remaining $26.7 million in ARSs held by the Company as of March 28, 2008 all had failed auctions in the first quarter of 2008. Based on current market conditions, we believe that it is likely that future auctions related to these securities will be unsuccessful in the near term. Unsuccessful auctions will result in our holding these securities beyond their next scheduled auction reset dates, thus limiting the short-term liquidity of these investments. While these failures in the auction process have affected our ability to access these funds in the near term, we do not believe that the underlying securities or collateral have been affected. It is the Company s intent to realize the cash value of these securities during its normal annual operating cycle and accordingly the securities have been classified in short-term investments. Certain of the issuers of the ARSs have announced plans to fully or partially redeem these securities, but we are currently unable to determine whether redemption will occur. While management believes that the Company will be able to liquidate our auction rate securities without significant loss during its normal annual operating cycle, the timing to realize the investments recorded value is uncertain. If the credit rating of the security issuers deteriorates or does not meet our investment criteria, the Company may be required to adjust the carrying value of these investments through an impairment charge or dispose of these securities, possibly at a loss.

Impairment of Investments

We monitor our 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. In order to determine whether a decline in value is other-than-temporary, we evaluate, among other factors: the duration and extent to which the fair value has been less than the carrying value; our financial condition and business outlook, including key operational and cash flow metrics, current market conditions and future trends in our industry; our relative competitive position within the industry; and our intent and ability to retain the investment for a period of time sufficient to allow any anticipated recovery in fair value.

In accordance with FASB Staff Position Nos. 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP FAS 115-1), there are no available-for-sale securities that have been in a continuous unrealized loss position for more than 12 months and the amount of unrealized losses on any individual security and the total investment balance is insignificant as of March 28, 2008. The decline in the estimated fair value of these investments relative to amortized cost is primarily related to changes in interest rates and is considered to be temporary in nature.

Note 5: Inventories

(In thousands)	**March 28, 2008**	**December 31, 2007**
Raw materials	$ 8,147	$ 8,700
Work-in-process	2,018	1,574
Finished goods	22,921	23,977
	$33,086	$34,251

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Note 6: Goodwill and Identified Intangibles

The following is a summary of goodwill and intangible assets as of March 28, 2008 and December 31, 2007:

	March 28, 2008			December 31, 2007		
(in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Identified intangibles:						
Developed core technology	$ 49,476	$(36,375)	$13,101	$ 49,463	$(34,941)	$14,522
Customer relationships/ contracts	33,913	(32,318)	1,595	33,912	(32,234)	1,678
Trademark and tradename	5,339	(4,489)	850	5,337	(4,432)	905
Supply agreement	3,546	(3,546)		3,543	(3,543)	
Maintenance agreements	600	(57)	543	600	(36)	564
Software license and intellectual property	249	(119)	130	249	(74)	175
Subtotal of identified intangibles	93,123	(76,904)	16,219	93,104	(75,260)	17,844
Goodwill	45,811		45,811	45,793		45,793
Total goodwill and other intangibles	$138,934	$(76,904)	$62,030	$138,897	$(75,260)	$63,637

The changes in the carrying amount of goodwill for the three months ended March 28, 2008 are as follows:

(in thousands)	**Goodwill**
Balance as of December 31, 2007	$45,793
Purchase price adjustments	
Foreign currency translation adjustments	18
Balance as of March 28, 2008	$45,811

For the three months ended March 28, 2008, the Company recorded a total of $1.6 million of amortization expense for identified intangibles, of which $1.4 million was included in cost of sales. For the three months ended March 30, 2007, the Company recorded a total of $1.1 million of amortization expense for identified intangibles, of which $1.0 million was included in cost of sales. The estimated future amortization expense of purchased intangible assets with definite lives is as follows:

(in thousands)

Years Ending December 31,	**Amounts**

2008 (remaining 9 months)	$