

HARMONIC INC  
Form 10-Q  
August 06, 2008

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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 June 27, 2008**

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

**Commission File No. 0-25826**

**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  No**

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of large accelerated filer, accelerated filer and smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

**(Do not check if a 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**

The number of shares outstanding of the Registrant's Common Stock, \$.001 par value, was 94,775,074 on July 25, 2008.



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**HARMONIC INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)**

<b>(In thousands, except par value amounts)</b>	<b>June 27, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 172,668	\$ 129,005
Short-term investments	115,541	140,255
Accounts receivable, net of allowances of \$6,493 and \$8,194	59,205	69,302
Inventories	32,124	34,251
Deferred income taxes	16,542	3,506
Prepaid expenses and other current assets	14,410	17,489
Total current assets	410,490	393,808
Property and equipment, net	14,681	14,082
Goodwill	42,806	45,793
Intangibles, net	14,640	17,844
Other assets	8,042	4,252
Total assets	\$ 490,659	\$ 475,779
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	11,142	20,500
Income taxes payable	467	481
Deferred revenue	23,426	37,865
Accrued liabilities	45,934	51,686
Total current liabilities	80,969	110,532
Accrued excess facilities costs, long-term	8,029	9,907
Income taxes payable, long-term	9,668	8,908
Deferred taxes, long-term		3,454
Other non-current liabilities	8,539	8,565
Total liabilities	107,205	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		
	94	94

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Common stock, \$0.001 par value, 150,000 shares authorized; 94,473 and 93,772 shares issued and outstanding		
Capital in excess of par value	2,257,108	2,246,875
Accumulated deficit	(1,873,568)	(1,912,386)
Accumulated other comprehensive loss	(180)	(170)
Total stockholders' equity	383,454	334,413
Total liabilities and stockholders' equity	\$ 490,659	\$ 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)**

<b>(In thousands, except per share amounts)</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 27, 2008</b>	<b>June 29, 2007</b>	<b>June 27, 2008</b>	<b>June 29, 2007</b>
Net sales	\$ 89,340	\$ 71,282	\$ 176,617	\$ 141,519
Cost of sales	46,488	40,717	91,486	83,802
Gross profit	42,852	30,565	85,131	57,717
Operating expenses:				
Research and development	13,347	9,605	26,540	20,597
Selling, general and administrative	20,022	15,771	37,470	31,446
Amortization of intangibles	160	111	320	222
Total operating expenses	33,529	25,487	64,330	52,265
Income from operations	9,323	5,078	20,801	5,452
Interest income, net	2,245	990	5,262	1,986
Other income (expense), net	(358)	7	(572)	(16)
Income before income taxes	11,210	6,075	25,491	7,422
Provision for (benefit from) income taxes	(14,254)	(174)	(13,327)	57
Net income	\$ 25,464	\$ 6,249	\$ 38,818	\$ 7,365
Net income per share				
Basic	\$ 0.27	\$ 0.08	\$ 0.41	\$ 0.09
Diluted	\$ 0.27	\$ 0.08	\$ 0.41	\$ 0.09
Weighted average shares				
Basic	94,229	79,361	94,143	79,164
Diluted	95,198	80,480	95,128	80,304

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)**

<b>(In thousands)</b>	<b>Six Months Ended</b>	
	<b>June 27, 2008</b>	<b>June 29, 2007</b>
Cash flows from operating activities:		
Net income	\$ 38,818	\$ 7,365
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of intangibles	3,204	2,151
Depreciation	3,467	3,347
Stock-based compensation	3,250	2,786
Excess tax benefits from stock-based compensation	(2,033)	
Net loss (gain) on disposal and impairment of fixed assets	9	(60)
Deferred tax assets	(15,098)	
Other non-cash adjustments, net	(1,274)	4
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	10,029	2,172
Inventories	2,133	(383)
Prepaid expenses and other assets	2,816	(3,702)
Accounts payable	(9,358)	(16,913)
Deferred revenue	(13,246)	1,622
Income taxes payable	850	(664)
Accrued excess facilities costs	(3,171)	(2,646)
Accrued and other liabilities	(3,777)	(5,054)
Net cash provided by (used in) operating activities	16,619	(9,983)
Cash flows from investing activities:		
Purchases of investments	(53,439)	(53,843)
Proceeds from maturities and sales of investments	80,545	51,928
Acquisition of property and equipment	(4,075)	(2,482)
Acquisition of Rhozet Corp.	(2,828)	(2,466)
Net cash provided by (used in) investing activities	20,203	(6,863)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	4,856	5,329
Excess tax benefits from stock-based compensation	2,033	
Repayments under bank line and term loan		(460)
Repayments of capital lease obligations		(43)
Net cash provided by financing activities	6,889	4,826
Effect of exchange rate changes on cash and cash equivalents	(48)	(13)

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Net increase (decrease) in cash and cash equivalents	43,663	(12,033)
Cash and cash equivalents at beginning of period	129,005	33,454
Cash and cash equivalents at end of period	\$ 172,668	\$ 21,421
Supplemental disclosure of cash flow information:		
Income tax payments, net	\$ 952	\$ 768
Interest paid during the period	\$	\$ 66

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 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.

*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 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

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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.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We do not expect the adoption of SFAS 162 to have a material effect on our consolidated results of operations and financial condition.

**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 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 June 27, 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 has been recorded as a long-term liability, and the payment of \$0.5 million in cash which has been recorded as a current liability.



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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 and six months ended June 29, 2007 combines the results for Harmonic for the three and six months ended June 29, 2007, and the historical results of Rhozet for the three and six months ended

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June 30, 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.

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<b>(in thousands, except per share data)</b>	<b>Three Months Ended June 29, 2007</b>	<b>Six Months Ended June 29, 2007</b>
Net sales	\$ 71,903	\$ 142,583
Net income	\$ 5,203	\$ 5,188
Net income per share basic	\$ 0.06	\$ 0.06
Net income per share diluted	\$ 0.06	\$ 0.06

**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.

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 June 27, 2008:

<b>(in thousands)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market funds	\$ 167,080	\$	\$	\$ 167,080
U.S. corporate debt		67,944		67,944
U.S. government agencies		33,089		33,089
Auction rate securities			14,508	14,508
	\$ 167,080	\$ 101,033	\$ 14,508	\$ 282,621
Forward exchange contracts		4,906		4,906
Total assets	\$ 167,080	\$ 105,939	\$ 14,508	\$ 287,527

Our auction rate securities were measured at fair value on a recurring basis using significant Level 3 inputs as of June 27, 2008. The following table summarizes our fair value measurements using significant Level 3 inputs, and



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changes therein, for the six month period ended June 27, 2008:

<b>(in thousands)</b>	<b>Level 3</b>
Balance as of December 31, 2007	\$
Transfers in to Level 3	34,863
Sales	(8,130)
Balance as of March 28, 2008	26,733
Sales	(12,289)
Unrealized gain recorded in Other comprehensive income	64
Balance as of June 27, 2008	\$ 14,508

The fair value of our auction rate securities at June 27, 2008 were measured using Level 3 inputs. The inputs to the valuation model could no longer be valued by observable market data as of June 27, 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 June 27, 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:

<b>(in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>June 27, 2008</b>				
U.S. government debt securities	\$ 33,201	\$ 12	\$ (124)	\$ 33,089
Certificates of deposit				
Corporate debt securities	68,172	84	(312)	67,944
Auction rate securities	14,508			14,508
Total	\$ 115,881	\$ 96	\$ (436)	\$ 115,541
<b>December 31, 2007</b>				
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

As of June 27, 2008, we held approximately \$14.5 million of auction rate securities, or ARSs, classified as short-term investments and we believe the fair value of these securities approximate their 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 six months of 2008, the Company was able to sell \$20.4 million of auction rate securities through successful auctions and redemptions. The remaining \$14.5 million in ARSs held by the Company as of June 27, 2008 all had failed auctions in the first six months 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 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

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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 two available-for-sale securities with a total fair market value at June 27, 2008 of \$0.9 million 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 June 27, 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**

<b>(In thousands)</b>	<b>June 27, 2008</b>	<b>December 31, 2007</b>
Raw materials	\$ 7,428	\$ 8,700
Work-in-process	2,128	1,574
Finished goods	22,568	23,977
	\$ 32,124	\$ 34,251

**Note 6: Goodwill and Identified Intangibles**

The following is a summary of goodwill and intangible assets as of June 27, 2008 and December 31, 2007:

<b>(in thousands)</b>	<b>June 27, 2008</b>			<b>December 31, 2007</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Identified intangibles:						
Developed core technology	\$49,444	\$(37,718)	\$11,726	\$49,463	\$(34,941)	\$14,522
Customer relationships/contracts	33,912					