HARMONIC INC
Form 10-Q
August 08, 2017
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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 June 30, 2017

¨ 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)

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	¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 July 31, 2017 was 81,272,292.

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PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
HARMONIC INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except per share data)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$52,885	$55,635
Short-term investments	—	6,923
Accounts receivable, net	60,427	86,765
Inventories	35,130	41,193
Prepaid expenses and other current assets	24,318	26,319
Total current assets	172,760	216,835
Property and equipment, net	31,624	32,164
Goodwill	240,570	237,279
Intangibles, net	25,317	29,231
Other long-term assets	37,745	38,560
Total assets	$508,016	$554,069
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Other debts and capital lease obligations, current	$7,130	$7,275
Accounts payable	31,322	28,892
Income taxes payable	1,349	1,166
Deferred revenue	55,165	52,414
Accrued and other current liabilities	50,272	55,150
Total current liabilities	145,238	144,897
Convertible notes, long-term	105,935	103,259
Other debts and capital lease obligations, long-term	9,292	13,915
Income taxes payable, long-term	2,996	2,926
Deferred tax liabilities, long-term	258	—
Other non-current liabilities	16,716	18,431
Total liabilities	280,435	283,428
Commitments and contingencies (Note 18)		
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; 80,669 and 78,456 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	81	78
Additional paid-in capital	2,260,886	2,254,055
Accumulated deficit	(2,030,384)	(1,976,222)
Accumulated other comprehensive loss	(3,002)	(7,270)
Total stockholders' equity	227,581	270,641
Total liabilities and stockholders' equity	$508,016	$554,069

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, in thousands, except per share data)

	Three months ended		Six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenue:				
Product	$50,190	$77,413	$100,594	$135,057
Services	32,125	32,158	64,664	56,346
Total net revenue	82,315	109,571	165,258	191,403
Cost of revenue:				
Product	32,005	44,049	58,107	71,238
Services	16,495	14,482	32,928	28,471
Total cost of revenue	48,500	58,531	91,035	99,709
Total gross profit	33,815	51,040	74,223	91,694
Operating expenses:				
Research and development	27,055	26,507	51,937	50,070
Selling, general and administrative	32,625	36,516	67,256	69,386
Amortization of intangibles	780	4,232	1,554	6,597
Restructuring and related charges	777	1,903	2,056	4,515
Total operating expenses	61,237	69,158	122,803	130,568
Loss from operations	(27,422)	(18,118)	(48,580)	(38,874)
Interest expense, net	(2,680)	(2,651)	(5,270)	(5,072)
Other (expense) income, net	(819)	332	(1,330)	323
Loss on impairment of long-term investment	—	—	—	(1,476)
Loss before income taxes	(30,921)	(20,437)	(55,180)	(45,099)
Provision for income taxes	579	242	347	760
Net loss	$(31,500)	$(20,679)	$(55,527)	$(45,859)
Net loss per share:				
Basic and diluted	$(0.39)	$(0.27)	$(0.69)	$(0.59)
Shares used in per share calculation:				
Basic and diluted	80,590	77,342	80,203	77,168

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

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HARMONIC INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, in thousands)

	Three months ended		Six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Net loss	$(31,500)	$(20,679)	$(55,527)	$(45,859)
Other comprehensive income (loss) before tax:				
Change in unrealized gain (loss) on cash flow hedges:				
Unrealized (loss) gain arising during the period	—	(165)	—	158
Loss reclassified into earnings	—	22	—	100
	—	(143)	—	258
Change in unrealized gain (loss) on available-for-sale securities:				
Unrealized (loss) gain arising during the period	(114)	(49)	(613)	30
Loss reclassified into earnings	—	—	—	1,476
	(114)	(49)	(613)	1,506
Change in foreign currency translation adjustments	3,994	(2,611)	4,883	(677)
Other comprehensive income (loss) before tax	3,880	(2,803)	4,270	1,087
Less: Provision for (benefit from) income taxes	—	5	2	23
Other comprehensive income (loss), net of tax	3,880	(2,808)	4,268	1,064
Total comprehensive loss	$(27,620)	$(23,487)	$(51,259)	$(44,795)

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, in thousands)

	Six months ended	
	June 30, 2017	July 1, 2016
Cash flows from operating activities:		
Net loss	$(55,527)	$(45,859)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of intangibles	4,144	8,322
Depreciation	7,139	7,737
Stock-based compensation	7,387	5,862
Amortization of discount on convertible debt and issuance cost	2,676	2,417
Restructuring, asset impairment and loss on retirement of fixed assets	228	1,687
Amortization of non-cash warrant	416	—
Loss on impairment of long-term investment	—	1,476
Deferred income taxes, net	(38)	38
Provision for excess and obsolete inventories	5,094	5,203
Allowance for doubtful accounts and returns	3,274	697
Other non-cash adjustments, net	189	144
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	23,479	(16,000)
Inventories	2,912	3,158
Prepaid expenses and other assets	5,933	(4,148)
Accounts payable	1,434	2,168
Deferred revenue	1,308	25,956
Income taxes payable	228	(122)
Accrued and other liabilities	(7,662)	(7,029)
Net cash provided by (used in) operating activities	2,614	(8,293)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	—	(72,989)
Proceeds from maturities of investments	3,106	12,842
Proceeds from sales of investments	3,792	—
Purchases of property and equipment	(5,943)	(7,708)
Net cash provided by (used in) investing activities	955	(67,855)
Cash flows from financing activities:		
Payment of convertible debt issuance costs	—	(582)
Proceeds from other debts and capital leases	164	5,972
Repayment of other debts and capital leases	(6,650)	(6,524)
Proceeds from common stock issued to employees	2,117	3,737
Payment of tax withholding obligations related to net share settlements of restricted stock units	(2,726)	(1,034)
Net cash (used in) provided by financing activities	(7,095)	1,569
Effect of exchange rate changes on cash and cash equivalents	776	(95)
Net decrease in cash and cash equivalents	(2,750)	(74,674)
Cash and cash equivalents at beginning of period	55,635	126,190
Cash and cash equivalents at end of period	$52,885	$51,516

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 3, 2017 (the “2016 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, 2017, 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 (“U.S. GAAP”).
On February 29, 2016, the Company completed the acquisition of Thomson Video Networks (“TVN”). TVN is now a part of the Company’s Video segment and its results of operations are included in the Company’s Condensed Consolidated Statements of Operations beginning March 1, 2016. During the fourth quarter of 2016, the Company completed the accounting for this business combination.

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 the 2016 Form 10-K. There have been no significant changes to these policies during the six months ended June 30, 2017 other than those disclosed in Note 2, “Standards Implemented”.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

New standards to be implemented

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new standard, Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, as amended, which will supersede nearly all existing revenue recognition guidance. Under ASU 2014-09, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for those goods or services. ASU No. 2014-09 defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used.

The FASB has issued several amendments to the new standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations. The amendments include ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606)-Principal versus Agent Considerations, which was issued in March 2016, and clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09, and ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606)-Identifying Performance Obligations and Licensing, which was issued in April 2016, and amends the guidance in ASU No. 2014-09 related to identifying performance obligations and accounting for licenses of

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intellectual property. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. The new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. The Company does not plan to early adopt, and accordingly, it will adopt the new standard effective January 1, 2018.

The Company currently plans to adopt using the modified retrospective approach. However, a decision regarding the adoption method has not been finalized at this time. The Company’s final determination will depend on a number of factors, such as the significance of the impact of the new standard on its financial results, system readiness, including that of software procured from third-party providers, and its ability to accumulate and analyze the information necessary to assess the impact on prior period financial statements, as necessary.

The Company is in the initial stages of its evaluation of the impact of the new standard on its accounting policies, processes, and system requirements. The Company has made and will continue to make investments in systems to enable timely and accurate reporting under the new standard. While the Company continues to assess all potential impacts under the new standard, there is the potential for significant impacts to the timing of recognition of software licenses with undelivered features and professional services revenue related to service contracts with acceptance terms as well as contract acquisition costs, both with respect to the amounts that will be capitalized as well as the period of amortization.

Under current industry-specific software revenue recognition guidance, the Company has historically concluded that it did not have vendor-specific objective evidence (“VSOE”) of fair value of the undelivered features relating to delivered software licenses, and accordingly, it has deferred entire revenue for such software licenses until the delivery of features. Professional services included in arrangements with acceptances have also been recognized on receipt of acceptance. The new standard, which does not retain the concept of VSOE, requires an evaluation of whether the undelivered features are distinct performance obligations and, therefore, should be separately recognized when delivered compared to the timing of delivery of software license. Professional services will generally be recorded as services are provided. Depending on the outcome of the Company’s evaluation, the timing of when revenue is recognized could change for future features and professional services under the new standard.

As part of the Company’s preliminary evaluation, it has also considered the impact of the guidance in ASC 340-40, Other Assets and Deferred Costs; Contracts with Customers, and the interpretations of the FASB Transition Resource Group for Revenue Recognition (“TRG”) from their November 7, 2016 meeting with respect to capitalization and amortization of incremental costs of obtaining a contract. As a result of this new guidance, the Company is currently assessing if it will need to capitalize any costs of obtaining the contract, including additional sales commissions. Under the Company’s current accounting policy, it expenses the commission costs immediately as incurred.

While the Company continues to assess the potential impacts of the new standard, including the areas described above, the Company does not know or cannot reasonably estimate quantitative information related to the impact of the new standard on its financial statements at this time.

In January 2016, the FASB issued an accounting standard update which requires equity investments to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The accounting standard update also updates certain presentation and disclosure requirements. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2018 and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In February 2016, the FASB amended the existing accounting standard for lease accounting. Under this guidance, lessees and lessors should apply a “right-of-use” model in accounting for all leases (including subleases) and eliminate the concept of operating leases and off-balance sheet leases. This new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The new standard will be effective for the Company beginning in the first quarter of fiscal 2019 and early adoption is permitted. The Company is currently evaluating the methods and impact of adopting this new leases standard on its consolidated financial statements.

In June 2016, the FASB issued new guidance that changes the impairment model for most financial assets and certain other instruments. For trade receivables and other instruments, the Company will be required to use a new forward-looking “expected loss” model. Additionally, credit losses on available-for-sale debt securities should be recorded through an allowance for credit

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losses limited to the amount by which fair value is below amortized cost. The new guidance will be effective for the Company beginning in the first quarter of fiscal 2019 and early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In August 2016, the FASB issued an accounting standard update that addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2018 and early adoption is permitted. The Company is currently evaluating the methods and impact of adopting the new accounting standard on its consolidated financial statements.

In November 2016, the FASB issued an accounting standard update which requires companies to include restricted cash and restricted cash equivalents in its cash and cash equivalent balances in the statement of cash flows. Transfers between cash, cash equivalents, restricted cash, and restricted cash equivalents are no longer presented in the statement of cash flows. The new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2018 and early adoption is permitted. The adoption of this new guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued an accounting standard update to simplify the test for goodwill impairment. It removes Step 2 of the goodwill impairment test and requires the assessment of fair value of individual assets and liabilities of a reporting unit to measure goodwill impairments. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2020 on a prospective basis, and early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In March 2017, the FASB issued a new accounting standard to improve the presentation of net periodic pension cost and net periodic post-retirement benefit cost. This new standard will be effective for the Company beginning in the first quarter of fiscal 2018 and early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In May 2017, the FASB issued a new accounting standard to clarify when to account for a change to the terms or conditions for a share-based payment award as a modification. It requires modification accounting only if the fair value, the vesting condition or the classification of the award changes as a result of the change in terms or conditions. This new standard will be effective for the Company beginning in the first quarter of fiscal 2018 and early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

Standards Implemented

In February 2015, the FASB issued an accounting standard update that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The accounting standard update became effective for the Company beginning in the first quarter of fiscal 2017. The application of this accounting standard update did not have any impact on the Company's Consolidated Balance Sheet or Statement of Operations upon adoption.

In July 2015, the FASB issued an accounting standard update that requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this accounting standard update beginning in the first quarter of fiscal 2017 and the adoption did not have a material impact on its consolidated financial statements.

In March 2016, the FASB issued an accounting standard update to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The Company adopted this accounting standard update beginning in the first quarter of fiscal 2017 and the adoption did not have any impact on its consolidated financial statements.

In March 2016, the FASB issued an accounting standard update for the accounting of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new standard eliminated the requirement to report excess tax benefits and certain tax deficiencies related to share-based payment transactions as additional paid-in capital. It also removes the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. Under the new guidance, the benefit will be recorded when it arises, subject to normal valuation allowance considerations. The Company adopted this new accounting standard beginning in the first quarter of fiscal 2017 using a modified-retrospective transition method and recorded a cumulative effect of $4.6 million of

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additional gross deferred tax asset associated with shared-based payment and an offsetting valuation allowance of the same amount, therefore resulting in no net impact to the Company's beginning retained earnings. Prior to January 1, 2017, stock-based compensation expense was recorded net of estimated forfeitures in the Company's condensed consolidated statements of operations and, accordingly, was recorded for only those stock-based awards that the Company expected to vest. Upon the adoption of this accounting standard update, effective January 1, 2017, the Company changed its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective approach with a cumulative effect adjustment of $69,000 to retained earnings as of January 1, 2017 (which increased the accumulated deficit). The implementation of this accounting standard update has no impact to the Company's condensed statement of cash flows because the Company does not have any excess tax benefits from share-based compensation because its tax provision is primarily under full valuation allowance. No prior periods were recast as a result of this change in accounting policy.

In October 2016, the FASB issued an accounting standard update which requires companies to recognize the income tax consequences of all intra-entity sales of assets other than inventory when they occur. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. The Company early adopted this accounting standard update during the first quarter of fiscal 2017 on a modified retrospective approach and recorded a cumulative-effect adjustment of $1.4 million to the retained earnings as of January 1, 2017 (which reduced the accumulated deficit). Correspondingly, in the first quarter of fiscal 2017, the Company recognized an additional $1.1 million of net deferred tax assets, after netting with $2.1 million of valuation allowance, and write off the remaining $0.3 million of unamortized tax expenses deferred under the previous guidance to provision for income taxes in the first quarter of fiscal 2017.

In January 2017, the FASB issued an accounting standard update to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The guidance will be effective for the Company beginning in the first quarter of fiscal 2018 on a prospective basis, and early adoption is permitted. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3: BUSINESS ACQUISITION

On February 29, 2016, the Company, through its wholly-owned subsidiary Harmonic International AG, completed its acquisition of 100% of the share capital and voting rights of TVN, a global leader in advanced video compression solutions headquartered in Rennes, France, for a final purchase price of $82.5 million in cash. The Company believes that its acquisition of TVN has strengthened, and will continue to strengthen, the Company's competitive position in the video infrastructure market as well as to enhance the depth and scale of the Company's research and development and service and support capabilities in the video arena.

During the fourth quarter of 2016, the Company completed the accounting for this business combination. The final TVN purchase price has been allocated to tangible and intangible assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The Company's allocation of TVN purchase consideration is as follows (in thousands):

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Assets:	
Cash and cash equivalents	$6,843
Accounts receivable, net	14,933
Inventories	3,462
Prepaid expenses and other current assets	2,412
Property and equipment, net	9,942
French R&D tax credit receivables (1)	26,421
Other long-term assets	2,134
Total assets	$66,147
Liabilities:	
Other debts and capital lease obligations, current	8,362
Accounts payable	12,494
Deferred revenue	2,504
Accrued and other current liabilities	18,365
Other debts and capital lease obligations, long-term	16,087
Other non-current liabilities	6,467
Deferred tax liabilities	2,126
Total liabilities	$66,405
Goodwill	41,670
Intangibles	41,100
Total purchase consideration	$82,512

(1) See Note 8, "Balance Sheet Components-Prepaid expenses and other current assets" for more information on French R&D tax credit receivables.

The following table presents details of the intangible assets acquired through this business combination (in thousands, except years):

	Estimated Useful Life (in years)	Fair Value
Backlog	6 months	$3,600
Developed technology	4 years	21,700
Customer relationships	5 years	15,200
Trade name	4 years	600
		$41,100

The goodwill is not expected to be deductible for income tax purposes but the intangibles assets acquired are expected to be deductible for income tax purposes in certain jurisdictions. Both goodwill and intangibles assets acquired are assigned to the Company's video reporting unit.

Acquisition- and integration-related expenses

As a result of the TVN acquisition, the Company incurred acquisition-and integration-related expenses and the amounts are summarized in the table below (in thousands):

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	Acquisition-related		Integration-related			
	Three months ended	Six months ended	Three months ended		Six months ended	
	July 1, 2016		June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Product cost of revenue	$ —	$ —	$—	$433	$342	$491
Research and development	—	—	—	500	7	550
Selling, general and administrative	885	3,321	467	1,585	2,268	2,137
Total acquisition- and integration-related expenses	$ 885	$ 3,321	$467	$2,518	$2,617	$3,178

These costs consisted of acquisition-related costs which include outside legal, accounting and other professional services as well as integration-related costs which include incremental costs resulting from the TVN acquisition that are not expected to generate future benefits once the integration is fully consummated. These costs are expensed as incurred. The Company expects to continue to have some TVN integration-related costs throughout the remainder of 2017, primarily outside legal and advisory fees relating to re-organization of TVN's legal entities.

Pro Forma Financial Information

The following unaudited pro forma summary presents consolidated information of the Company as if the acquisition of TVN had occurred on January 1, 2015, the beginning of the comparable prior annual period. The unaudited pro forma combined results are provided for illustrative purpose only and are not indicative of the Company's actual consolidation results.

The pro forma adjustments primarily relate to the amortization of acquired intangibles and interest expense related to financing arrangements. In addition, the unaudited pro forma net loss for the three and six months ended July 1, 2016 was adjusted to exclude $6.5 million of acquisition- and integration- related expenses, respectively. These adjustments exclude the income tax impact.

	Six months ended July 1, 2016
(in millions, except per share amounts)	
Net revenue	$200.1
Net loss	(40.3)
Net loss per share-basic and diluted	$(0.52)

NOTE 4: SHORT-TERM INVESTMENTS

As of June 30, 2017, the Company has no short-term investments. The following table summarizes the Company's short-term investments as of December 31, 2016 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2016				

Corporate bonds	$ 6,928	$ —	$ (5)	$ 6,923
Total short-term investments	$ 6,928	$ —	$ (5)	$ 6,923

The Company’s short-term investments as of December 31, 2016 had maturities of less than one year. These available-for-sale investments are presented as “Current Assets” in the Condensed Consolidated Balance Sheets as they were available for current operations. Realized gains and losses from the sale of investments were not material for the three and six months ended June 30, 2017 and July 1, 2016.

The Company’s investments in equity securities of other privately and publicly held companies were $3.8 million and $4.4 million as of June 30, 2017 and December 31, 2016, respectively, and such investments were considered as long-term investments and

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were included in “Other long-term assets” in the Condensed Consolidated Balance Sheet. (See Note 5, “Investments in Other Equity Securities” for additional information).

NOTE 5: INVESTMENTS IN OTHER EQUITY SECURITIES

From time to time, the Company may acquire certain equity investments for the promotion of business objectives and these investments are classified as long-term investments and included in “Other long-term assets” in the Condensed Consolidated Balance Sheet.

In 2014, the Company acquired a 3.3% interest in Vislink plc (“Vislink”), a U.K. public company listed on the AIM exchange in London, for $3.3 million. The investment in Vislink is being accounted for as a cost method investment as the Company does not have significant influence over the operational and financial policies of Vislink. Since the Vislink investment is also an available-for-sale security, its value is marked to market for the difference in fair value at period end. The carrying value of Vislink was $0.2 million and $0.8 million at June 30, 2017 and December 31, 2016, respectively. Vislink’s accumulated unrealized (loss) gain, net of taxes was $(0.3) million and $0.3 million at June 30, 2017 and December 31, 2016, respectively.

Beginning in late 2015 and continuing through 2016, Vislink’s stock price was below the Company’s cost basis for a prolonged period of time and based on the Company’s assessment, impairment charges of $1.5 million and $1.2 million for Vislink were recorded in the first and third quarter of 2016, respectively, reflecting the new reduced cost basis of the Vislink investment at September 30, 2016. As of December 31, 2016, Vislink’s stock price increased approximately 67% from the stock price as of September 30, 2016.

On February 3, 2017, Vislink (from thereon, referred to as Pebble Beach Systems) completed their disposal of its hardware division and changed its name to Pebble Beach Systems. On February 6, 2017, Pebble Beach Systems announced its financial results for fiscal 2016 which showed a significant increase in operating losses. As of June 30, 2017, Pebble Beach Systems’ stock price had declined 83% from the stock price as of December 31, 2016 and Pebble Beach System is currently seeking alternatives to maximize value for its shareholders, which could include a sale of the company. In view of Pebble Beach Systems’ potential sale opportunity, the Company determined that the decline in the fair value of Pebble Beach Systems’ investment is not considered permanent yet, and as a result, the $0.1 million loss in Vislink’s investment in the second quarter of 2017 was recorded to other comprehensive loss. The Company’s remaining maximum exposure to loss from the Pebble Beach Systems’ investment at June 30, 2017 was approximately $0.5 million, consisting of the carrying value of $0.2 million and the accumulated unrealized loss of $(0.3) million.

The assessment as to the nature of a decline in fair value is based on, among other things, the length of time and the extent to which the market value has been less than the Company’s cost basis; the financial condition and near-term prospects of the investment; and the Company’s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Unconsolidated Variable Interest Entities (“VIE”)

In 2014, the Company acquired an 18.4% interest in Encoding.com, Inc. (“EDC”), a video transcoding service company headquartered in San Francisco, California, for $3.5 million by purchasing EDC’s Series B preferred stock. EDC is considered a variable interest entity but the Company determined that it is not the primary beneficiary of EDC. As a result, EDC is accounted for as a cost method investment.

The Company determined that there were no indicators existing at June 30, 2017 that would indicate that the EDC investment was impaired. The Company’s maximum exposure to loss from the EDC’s investment at June 30, 2017 was limited to its investment cost of $3.6 million, including $0.1 million of transaction costs.

NOTE 6: DERIVATIVES AND HEDGING ACTIVITIES

The Company uses forward contracts to manage exposures to foreign currency exchange rates. The Company's primary objective in holding derivative instruments is to reduce the volatility of earnings and cash flows associated with fluctuations in foreign currency exchange rates and the Company does not use derivative instruments for trading purposes. The use of derivative instruments expose the Company to credit risk to the extent that the counterparties may be unable to meet their contractual obligations, as such, the potential risk of loss with any one counterparty is closely monitored by the Company.

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Derivatives Not Designated as Hedging Instruments (Balance Sheet Hedges)

The Company's balance sheet hedges consist of foreign currency forward contracts, mature generally within three months, are carried at fair value and are used to minimize the short-term impact of foreign currency exchange rate fluctuation on cash and certain trade and inter-company receivables and payables. Changes in the fair value of these foreign currency forward contracts are recognized in "Other expense, net" in the Condensed Consolidated Statement of Operations and are largely offset by the changes in the fair value of the assets or liabilities being hedged.

The locations and amounts of designated and non-designated derivative instruments' gains and losses reported in the Company's Accumulated Other Comprehensive Loss ("AOCI") and Condensed Consolidated Statements of Operations were as follows (in thousands):

	Financial Statement Location	Three months ended June 30, 2017	Three months ended July 1, 2016	Six months ended June 30, 2017	Six months ended July 1, 2016
Derivatives designated as hedging instruments:					
Loss in AOCI on derivatives (effective portion)	AOCI	$—	$(165)	$—	$158
Loss reclassified from AOCI into income (effective portion)	Cost of Revenue	$—	$(3)	$—	$(13)
	Operating Expense	—	(19)	—	(87)
	Total	$—	$(22)	$—	$(100)
Losses recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing)	Other expense, net	$—	$(22)	$—	$(49)
Derivatives not designated as hedging instruments:					
Loss recognized in income	Other expense, net	$(53)	$(50)	$(185)	$(334)

The U.S. dollar equivalents of all outstanding notional amounts of foreign currency forward contracts are summarized as follows (in thousands):

	June 30, 2017	December 31, 2016
Derivatives not designated as hedging instruments:		
Purchase	$9,911	$4,056
Sell	$5,970	$11,157

The locations and fair value amounts of the Company's derivative instruments reported in its Condensed Consolidated Balance Sheets are as follows (in thousands):

	Balance Sheet Location	Asset Derivatives June 30, 2017	Asset Derivatives December 31, 2016	Balance Sheet Location	Derivative Liabilities June 30, 2017	Derivative Liabilities December 31, 2016
Derivatives not designated as hedging instruments:						
Foreign currency contracts	Prepaid expenses and other current assets	$118	$54	Accrued Liabilities	$64	$40
Total derivatives		$118	$54		$64	$40

Offsetting of Derivative Assets and Liabilities

The Company recognizes all derivative instruments on a gross basis in the Condensed Consolidated Balance Sheets. However, the arrangements with its counterparties allows for net settlement, which are designed to reduce credit risk by permitting net settlement with the same counterparty. As of June 30, 2017, information related to the offsetting arrangements was as follows (in thousands):

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	Gross Amounts of Derivatives	Gross Amounts of Derivatives Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Derivatives Presented in the Condensed Consolidated Balance Sheets	Gross Amounts of Derivatives Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instrument	Cash Collateral Pledged	Net Amount
Derivative Assets	$ 118	—	$ 118	$ (11)	—	$ 107
Derivative Liabilities	$ 64	—	$ 64	$ (11)	—	$ 53

In connection with foreign currency derivatives entered in Israel, the Company's subsidiaries in Israel are required to maintain a compensating balance with their bank at the end of each month. The compensating balance arrangements do not legally restrict the use of cash and as of June 30, 2017, the total compensating balance maintained was $2.5 million.

NOTE 7: 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.

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 carrying value of the Company's financial instruments, including cash equivalents, restricted cash, accounts receivable, accounts payable and accrued and other current liabilities, approximate fair value due to their short maturities.

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. The fair value of the Company's convertible notes is influenced by interest rates, the Company's stock price and stock market volatility. The estimated fair value of the Company's convertible notes based on a market approach was approximately $147.9 million and $143.5 million as of June 30, 2017 and December 31, 2016, respectively, and represents a Level 2 valuation. The Company’s other debts and capital leases assumed from the TVN acquisition are classified within Level 2 because these borrowings are not actively traded and the majority of them have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities. Additionally, the Company considers the carrying amount of its capital lease obligations to approximate their fair value because the weighted average interest rate used to formulate the carrying amounts approximates current market rates. The other debts and capital leases outstanding as of June 30, 2017 were $16.4 million in the aggregate. (See Note 11, “Convertible Notes, Other debts and Capital Leases” for additional information). The fair value of the Company’s liability for the TVN voluntary departure plan (“TVN VDP”) as of June 30, 2017 of $7.2 million is classified within Level 3 because discount rates which are unobservable in the market were being used to measure the fair value of this liability. (See Note 10, “Restructuring and related Charges-TVN VDP” for additional information). The

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fair value of the TVN defined pension benefit plan liability of $4.8 million as of June 30, 2017 is disclosed in Note 12, “Employee Benefit Plans and Stock-based Compensation-TVN Retirement Benefit Plan.”

During the six months ended June 30, 2017, there were no nonrecurring fair value measurements of assets and liabilities subsequent to initial recognition.

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

	Level 1	Level 2	Level 3	Total
As of June 30, 2017				
Cash equivalents				
Money market funds	$246	$—	$—	$246
Prepaids and other current assets				
Derivative assets	—	118	—	118
Other assets				
Long-term investment	192	—	—	192
Total assets measured and recorded at fair value	$438	$118	$—	$556
Accrued and other current liabilities				
Derivative liabilities	$—	$64	$—	$64
Accrued TVN VDP, current portion	—	—	3,915	3,915
Other non-current liabilities				
Accrued TVN VDP, long-term portion	—	—	3,247	3,247
Total liabilities measured and recorded at fair value	$—	$64	$7,162	$7,226

	Level 1	Level 2	Level 3	Total
As of December 31, 2016				
Cash equivalents				
Money market funds	$8,301	$—	$—	$8,301
Corporate bonds	—	6,923	—	6,923
Prepaids and other current assets				
Derivative assets	—	54	—	54
Other assets				
Long-term investment	809	—	—	809
Total assets measured and recorded at fair value	$9,110	$6,977	$—	$16,087
Accrued and other current liabilities				
Derivative liabilities	$—	$40	$—	$40
Accrued TVN VDP, current portion	—	—	6,597	6,597
Other non-current liabilities				
Accrued TVN VDP, long-term portion	—	—	3,053	3,053
Total liabilities measured and recorded at fair value	$—	$40	$9,650	$9,690

NOTE 8: BALANCE SHEET COMPONENTS

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

	June 30, 2017	December 31, 2016
Accounts receivable, net:		
Accounts receivable	$66,892	$91,596
Less: allowances for doubtful accounts, returns and discounts	(6,465)	(4,831)
Total	$60,427	$86,765

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	June 30, 2017	December 31, 2016
Prepaid expenses and other current assets:		
Deferred cost of revenue	$5,615	$ 6,856
French R&D tax credits receivable(1)	6,277	5,895
Prepaid maintenance, royalty, rent, property taxes and value added tax	6,574	5,526
Prepaid customer incentive(2)	746	1,162
Restricted cash(3)	802	731
Other	4,304	6,149
Total	$24,318	$ 26,319

(1) The Company's acquired TVN subsidiary in France (the "TVN French Subsidiary") participates in the French Crédit d'Impôt Recherche ("CIR") program (the "R&D tax credits") which allows companies to monetize eligible research expenses. The R&D tax credits can be used to offset against income tax payable to the French government in each of the four years after being incurred, or if not utilized, are recoverable in cash. The amount of R&D tax credits recoverable are subject to audit by the French government. The R&D tax credit receivables at June 30, 2017 were approximately $24.3 million and are expected to be recoverable from 2018 through 2021 with $6.3 million reported under "Prepaid and other Current Assets" and $18.0 million reported under "Other Long-term Assets" on the Company's Condensed Consolidated Balance Sheets.
(2) On September 26, 2016, the Company issued a warrant to purchase shares of its common stock (the "Warrant") to Comcast pursuant to which Comcast may, subject to certain vesting provisions, purchase up to 7,816,162 shares of the Company's common stock subject to adjustment in accordance with the terms of the Warrant, for a per share exercise price of $4.76. The portion of the Warrant which vested on September 26, 2016 had a value of approximately $1.6 million and is deemed a customer incentive paid upfront and cumulatively, $0.9 million of this prepaid incentive has been recorded as a reduction to the Company's net revenues from Comcast. The remaining $0.7 million of this prepaid incentive is reported as an asset under "Prepaid expenses and other current assets" on the Company's Condensed Consolidated Balance Sheet as of June 30, 2017. The Company considers this asset to be recoverable based on the expectation of Comcast's future purchases of the pertinent products.
(3) The restricted cash balances are held as cash collateral security for certain bank guarantees. These restricted funds are invested in bank deposits and cannot be withdrawn from the Company's accounts without the prior written consent of the applicable secured party. Additionally, as of June 30, 2017, the Company recorded approximately $1.1 million of restricted cash for the bank guarantee associated with the TVN French Subsidiary's office building lease. This amount is reported under "Other Long-term Assets" on the Company's Condensed Consolidated Balance Sheets.

	June 30, 2017	December 31, 2016
Inventories:		
Raw materials	$9,179	$ 9,889
Work-in-process	1,789	2,318
Finished goods	11,643	17,776
Service-related spares	12,519	11,210
Total	$35,130	$ 41,193

	June 30, 2017	December 31, 2016
Property and equipment, net:		
Machinery and equipment	$86,841	$97,989
Capitalized software	32,639	34,519
Leasehold improvements	14,406	14,455

Furniture and fixtures	6,780	8,993
Property and equipment, gross	140,666	155,956
Less: accumulated depreciation and amortization	(109,042)	(123,792)
Total	$31,624	$32,164

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	June 30, 2017	December 31, 2016
Accrued Liabilities:		
Accrued employee compensation and related expenses	$17,671	$ 19,377
Accrued TVN VDP, current [(1)]	3,915	6,597
Accrued warranty	4,142	4,862
Customer deposits	3,848	4,537
Contingent inventory reserves	3,671	2,210
Accrued royalty payments	2,797	1,912
Others	14,228	15,655
Total	$50,272	$ 55,150

(1) See Note 10, "Restructuring and related charges-TVN VDP," for additional information on the Company's TVN VDP liabilities.

NOTE 9: GOODWILL AND IDENTIFIED INTANGIBLE ASSETS

Goodwill

Goodwill represents the difference between the purchase price and the estimated fair value of the identifiable assets acquired and liabilities assumed. Goodwill is allocated among and evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. The Company has two reporting units, Video and Cable Edge. The Company tests for goodwill impairment at the reporting unit level on an annual basis, or more frequently, if events or changes in circumstances indicate that the asset is more likely than not impaired. The Company's annual goodwill impairment test is performed in the fiscal fourth quarter, with a testing date at the end of October.

During 2016, the Company recorded goodwill of $41.7 million for the TVN acquisition. Goodwill from the TVN acquisition is assigned to the Video reporting unit.

The changes in the carrying amount of goodwill by reportable segments for the six months ended June 30, 2017 were as follows (in thousands):

	Video	Cable Edge	Total
Balance as of December 31, 2016	$176,519	$60,760	$237,279
Foreign currency translation adjustment	3,261	30	3,291
Balance as of June 30, 2017	$179,780	$60,790	$240,570

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows and determining appropriate discount rates, growth rates, an appropriate control premium and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit which could trigger impairment. If the Company's assumptions and related estimates change in the future, or if the Company's reporting structure changes or other events and circumstances change (e.g. such as a sustained decrease in the Company's stock price), the Company may be required to record impairment charges in future periods. Any impairment charges that the Company may take in the future could be material to its results of operations and financial condition.

The Company performed its annual goodwill impairment review at October 31, 2016. Based on the impairment test performed, management concluded that goodwill was not impaired as the Video and Cable Edge reporting units had

estimated fair values in excess of their carrying value by approximately 67% and 123%, respectively.
The Company has not recorded any impairment charges related to goodwill for any prior periods.

Intangible Assets

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

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		June 30, 2017			December 31, 2016		
	Weighted Average Remaining Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed core technology	2.7	$31,708	$ (17,807)	$ 13,901	$31,707	$ (15,216)	$ 16,491
Customer relationships/contracts	3.7	44,643	(33,641)	11,002	44,384	(32,098)	12,286
Trademarks and trade names	2.7	621	(207)	414	573	(119)	454
Maintenance agreements and related relationships	N/A	5,500	(5,500)	—	5,500	(5,500)	—
Order Backlog	N/A	3,011	(3,011)	—	3,011	(3,011)	—
Total identifiable intangibles		$85,483	$ (60,166)	$ 25,317	$85,175	$ (55,944)	$ 29,231

Amortization expense for the identifiable purchased intangible assets for the three and six months ended June 30, 2017 and July 1, 2016 was allocated as follows (in thousands):

	Three months ended		Six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Included in cost of revenue	$1,295	$1,307	$2,590	$1,725
Included in operating expenses	780	4,232	1,554	6,597
Total amortization expense	$2,075	$5,539	$4,144	$8,322

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,			
2017 (remaining six months)	$ 2,590	$ 1,578	$4,168
2018	5,180	3,156	8,336
2019	5,180	3,156	8,336
2020	951	3,026	3,977
2021	—	500	500
Total future amortization expense	$ 13,901	$ 11,416	$25,317

NOTE 10: RESTRUCTURING AND RELATED CHARGES

The Company implemented several restructuring plans in the past few years. The goal of these plans was to bring operational expenses to appropriate levels relative to its net revenues, while simultaneously implementing extensive company-wide expense control programs.

The Company accounts for its restructuring plans under the authoritative guidance for exit or disposal activities. The restructuring and related charges are included in "Product cost of revenue" and "Operating expenses-restructuring and related charges" in the Condensed Consolidated Statements of Operations. The following table summarizes the restructuring and related charges (in thousands):

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	Three months ended		Six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Restructuring and related charges in:				
Product cost of revenue	$278	$6	$786	$(23)
Operating expenses-Restructuring and related charges	777	1,903	2,056	4,515
Total restructuring and related charges	$1,055	$1,909	$2,842	$4,492

Harmonic 2016 Restructuring

In the first quarter of 2016, the Company implemented a new restructuring plan (the “Harmonic 2016 Restructuring Plan”) to streamline the corporate organization, thereby reducing operating costs by consolidating duplicative resources in connection with the acquisition of TVN. The planned activities have primarily resulted, and will primarily result, in cash expenditures related to severance and related benefits and exiting certain operating facilities and disposing of excess assets. In the second quarter of 2016, the Company also initiated the TVN VDP in France to streamline the organization of the TVN French Subsidiary.

In 2016, the Company recorded an aggregate of $20.0 million of restructuring and related charges under the Harmonic 2016 Restructuring Plan, of which $2.2 million was primarily related to the Company exiting from an excess facility at its U.S. headquarters and the remaining $17.8 million was related to severance and benefits for the termination of 118 employees worldwide, including 83 employees in France who participated in the TVN VDP. (See details of TVN VDP described below). Additionally, the restructuring and related charges under the Harmonic 2016 Restructuring Plan in 2016 were partially offset by approximately $2.0 million of gain from TVN pension curtailment. For the employees who participated in the TVN VDP, their pension benefit is funded by the TVN VDP and, as a result, the TVN defined benefit pension plan was remeasured at December 31, 2016, which resulted in a non-cash curtailment gain. This gain was recorded as an offset to restructuring and related costs in 2016.

The Company also incurred $16.9 million of TVN acquisition- and integration-related expenses in 2016 and another $2.6 million in the six months ended June 30, 2017. The Company expects to continue to have some TVN integration-related costs throughout the remainder of 2017, primarily consisting of outside legal and advisory fees relating to the re-organization of TVN’s legal entities. (See Note 3, “Business Acquisition,” for additional information on TVN acquisition-and integration-related expenses).

In the three months ended June 30, 2017, the Company recorded $1.1 million of restructuring and related charges under the Harmonic 2016 Restructuring Plan, consisting of $0.7 million of TVN VDP charges and $0.4 million of severance for other employees. In the six months ended June 30, 2017, the Company recorded $2.8 million of restructuring and related charges under the Harmonic 2016 Restructuring Plan, consisting of $1.8 million of TVN VDP charges and $1.0 million of severance for other employees. During the six months ended June 30, 2017, 21 non-VDP employees worldwide were terminated.

TVN VDP

During 2016, the Company consulted and worked with the works council for the TVN French Subsidiary and applicable union representatives to establish a voluntary departure plan to enable French employees of TVN to voluntarily terminate with certain benefits. A total of 83 employees applied for the TVN VDP and were duly approved by the Company in the fourth quarter of 2016. The total TVN VDP costs, including severance, certain benefits and taxes, as well as administration costs, is estimated at approximately $15.3 million, in aggregate, at the inception of the plan and will be paid over a period of four years, based on the TVN VDP terms agreed with each employee. The total final payout to the employees may be different from the initial estimates depending on the final social charges imputed on each employee’s total income and benefits received. The Company does not expect the final payout to be materially different from the initial estimates. The fair value of the total TVN VDP liability at inception was estimated to be approximately $14.8 million.

The Company accounts for these special termination benefits in accordance with ASC 712, “Compensation - Nonretirement Postemployment Benefits,” which requires that the special termination benefits be recognized as a liability and a loss beginning when an employee accepts the offer of voluntary termination and the amount can be reasonably estimated. Where an employee is required to work beyond a minimum statutory notice period, the cost of the special termination benefit is recognized as an expense over the employee’s remaining service period. Where the employee is not required to work beyond a minimum statutory notice period, the cost of the special termination benefit is recognized upon the date the employee accepts the offer of voluntary termination, provided that the amount of the benefit can be estimated. Out of the 83 employees who applied for TVN VDP, 11 of them are

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required to work beyond the minimum statutory notice period into 2017. Based on the application of the accounting guidance, the Company recorded $1.8 million and $13.1 million of TVN VDP costs in the first six months of 2017 and in the year ended 2016, respectively. Cumulatively, the Company had paid an aggregate of $8.4 million of TVN VDP costs, of which $3.5 million was paid in 2016 and $4.9 million was paid in 2017. The fair value of the TVN VDP liability balance at June 30, 2017 was $7.2 million.

The table below shows the estimated future payments for TVN VDP as of June 30, 2017 (in thousands):

Years ending December 31,	
2017 (remaining six months)	$2,349
2018	3,302
2019	1,651
2020	783
Total	$8,085

Excess Facility in San Jose, California

In January 2016, the Company exited an excess facility at its U.S. headquarters in San Jose, California and recorded $1.4 million in facility exit costs. The fair value of these liabilities is based on a net present value model using a credit-adjusted risk-free rate. The liability will be paid out over the remainder of the leased properties' terms, which continue through August 2020. As of the cease-use date, the fair value of this restructuring liability totaled $2.5 million. Offsetting these charges was an adjustment for deferred rent liability relating to this space of $1.1 million. In December 2016, as a result of a change in estimated sublease income, the restructuring liability was increased by $0.6 million.

The following table summarizes the activity in the Company's restructuring accrual related to the Harmonic 2016 Restructuring Plan during the six months ended June 30, 2017 (in thousands):

	Excess facilities	VDP (1)	Severance and benefits (2)	Total
Balance at December 31, 2016	$2,375	$9,650	$1,519	$13,544
Charges for 2016 Harmonic Restructuring Plan	48	1,777	973	2,798
Adjustments to restructuring provisions			44	44
Cash payments	(676)	(4,862)	(2,067)	(7,605)
Foreign exchange gain		597	31	628
Balance at June 30, 2017	1,747	7,162	500	9,409
Less: current portion (3)	(854)	(3,915)	(500)	(5,269)
Long-term portion (3)	$893	$3,247	$—	$4,140

(1) See discussion of the TVN VDP above for future estimated payments through 2020.
(2) The Company anticipates that the remaining severance and benefits accrual at June 30, 2017 will be fully paid in 2017.
(3) The current portion and long-term portion of the restructuring liability are reported under "Accrued and other current liabilities" and "Other non-current liabilities", respectively, on the Company's Condensed Consolidated Balance Sheets.

NOTE 11: CONVERTIBLE NOTES, OTHER DEBTS AND CAPITAL LEASES

4.00% Convertible Senior Notes

In December 2015, the Company issued $128.25 million aggregate principal amount of 4.0% unsecured convertible senior notes due December 1, 2020 (the "offering" or "Notes", as applicable) through a private placement with a financial institution. The Notes do not contain any financial covenants and the Company can settle the Notes in cash, shares of common stock, or any combination thereof. The Notes can be converted under certain circumstances described below, based on an initial conversion rate of 173.9978 shares of common stock per $1,000 principal amount of Notes (which represents an initial conversion price of approximately $5.75 per share). Interest on the Notes is payable semiannually in arrears on June 1 and December 1 of each year.

Concurrent with the closing of the offering, the Company used $49.9 million of the net proceeds to repurchase 11.1 million shares of the Company’s common stock from purchasers of the offering in privately negotiated transactions. In addition, the

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Company incurred approximately $4.1 million in debt issuance costs resulting in net proceeds to the Company of approximately $74.2 million, which was used to fund the TVN acquisition.

Prior to September 1, 2020, holders of the Notes may convert the Notes at their option only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on April 1, 2016, if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the Notes on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the " measurement period ") in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. Commencing on September 1, 2020 until the close of business on the second scheduled trading day immediately preceding the maturity date, the Notes will be convertible in multiples of $1,000 principal amount regardless of the foregoing circumstances.

If a fundamental change occurs, holders of the Notes may require the Company to purchase all or any portion of their Notes for cash at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events occur prior to the maturity date, the conversion rate may be increased for a holder who elects to convert the Notes in connection with such a corporate event.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the initial proceeds of the Notes as a whole. The difference between the initial proceeds of the Notes and the liability component (the "debt discount") of $26.9 million is amortized to interest expense using the effective interest method over the term of the Notes. The equity component of the Notes is included in additional paid-in capital in the Condensed Consolidated Balance Sheets and is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the issuance of the Notes, the Company allocated the total amount of $4.1 million to the liability and equity components using the same proportions as the proceeds from the Notes. Transaction costs attributable to the liability component were $3.2 million and were recorded as a direct deduction from the carrying amount of the debt liability in long-term liability in the Condensed Consolidated Balance Sheets and are being amortized to interest expense in the Condensed Consolidated Statements of Operations using the effective interest method over the term of the Notes. Transaction costs attributable to the equity component were $0.9 million and were netted with the equity component of the Notes in additional paid-in capital in the Condensed Consolidated Balance Sheets.

The following table presents the components of the Notes as of June 30, 2017 and December 31, 2016 (in thousands, except for years and percentages):

	June 30, 2017	December 31, 2016
Liability:		
Principal amount	$128,250	$128,250
Less: Debt discount, net of amortization	(19,914)	(22,302)
Less: Debt issuance costs, net of amortization	(2,401)	