

Vecima Reports Fiscal 2011 Q2 Results

VICTORIA – (February 14, 2011) – Vecima Networks Inc. (“Vecima” or “the Company”) (TSX:VCM), today reported its fiscal 2011 second quarter and six-month financial results for the period ended December 31, 2010. (All dollar amounts are in Canadian funds unless otherwise stated.)

“We are reporting net income of \$0.31 per share for this quarter compared to \$0.13 per share for Q2 last year. This quarter we realized a gain of \$14 million on the sale of our 2.5 – 2.6 GHz radio spectrum. This asset sale helped us overcome what would have been an operating loss this quarter due to the slower than anticipated introduction of four new products. At the same time, our major customers in the USA continue to suffer from weak economic conditions in that country. As the US economy gradually recovers from its deep recession, we anticipate improvement in our results later in the year,” said Dr. Surinder Kumar, President and CEO of Vecima.

“We have clearly been affected by the delayed launch of new products. Our second quarter results fell short of our expectation. This in turn caused a decrease in gross margin as a result of substantial decline in sales in the presence of fixed labour costs required to maintain our manufacturing capacity,” Dr. Kumar continued.

Fiscal 2011 Q2 financial highlights:

- Net income for Q2 was \$7.0 million, compared with \$2.9 million in the same period last year. Excluding other income as a result of the spectrum sale, the net loss for Q2 would have been \$3.0 million net of tax effects. Net income for the first half of fiscal 2011 was \$8.8 million, compared with \$4.2 million in the first half of fiscal 2010. Excluding other income as a result of the spectrum sale, the net loss for the first six months of fiscal 2011 would have been \$1.1 million net of tax effects.
- Gross margin decreased to 30% for Q2, providing a gross profit of \$5.9 million, compared with a gross margin of 38% for the same period last year that provided a gross profit of \$10.8 million. This decrease is a result of decreased efficiency in production due to lower production levels and a stronger Canadian dollar in the quarter. In the first six months of fiscal 2011, gross margin was 35%, providing a gross profit of \$16.0 million, compared to 37% in the same period a year earlier, providing a gross profit of \$20.9 million. In the long run, we believe gross margin will continue to be within the Company’s traditional range of 35% to 40%.

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- Revenue decreased 28% to \$20.1 million in Q2 compared to \$28.0 million in the same period a year earlier. Revenue from YourLink was essentially unchanged while Converged Wired Solutions and Broadband Wireless sales declined 27% and 60%, respectively. Revenue for the first six months of fiscal 2011 decreased 18% to \$46.4 million compared with \$56.4 million for the first six months of fiscal 2010. YourLink revenue increased 12%, while Converged Wired Solutions and Broadband Wireless revenue decreased 21% and 25% respectively.

The first and primary impact on sales was delays in the launch of new products:

- The final approval of TerraceQAM for deployment was delayed at our major MSO customer. Further, our OEM partner opted out of the exclusive selling arrangement because of a change in business focus. We have since formed a relationship with another channel partner with a worldwide sales organization. We are in the final stages of signing an agreement with the new OEM customer who is also a worldwide leading cable vendor. Based on feedback from these customers, Vecima now believes that the demand for the TerraceQAM solution is even stronger than previously expected.
- We continued demonstrations of the first variant of our Concierge product with prospective customers in the second quarter. The response to Concierge has been positive. During the quarter, we completed development and are now demonstrating a second variant of Concierge. This variant addresses a larger segment of the satellite network hospitality market. We believe we are now positioned to complete technical evaluations which will yield future revenue as these customers deploy. The timing of these deployments is hard to predict but is expected to begin in fiscal 2011.
- In our Q1 highlights, we announced that Vecima had shipped deployment volumes of digital video and internet over cable modules to one of our two OEM partners for these products and were in the final stages of certification testing at the other OEM partner. In the second quarter, we successfully completed this certification testing and continued to ship to the initial customer. Shipment of modules to the other customer will start in the third quarter.

Revenue was also affected by reductions in legacy product orders:

- Broadband wireless sales declined by 60% in Q2 of fiscal 2011 as compared to the same period last year. This was caused by a slowdown in government procurement contracts for our software defined radio product line. We expect wireless sales in ISP markets to gain momentum going forward.

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- We also experienced a significant one time effect that drove sales down. A major OEM customer delayed shipment of an order that the customer had previously expedited.

We made progress on the following new opportunities:

- Development of Vecima's new customized wireless modem for the emerging vehicle fleet management opportunity continued during the second quarter and various engineering milestones were completed. Our target lead customer has a launch plan that aligns with delivery of our product in Q4. This product addresses a substantial new market for vehicle tracking, fleet performance management and logistics optimization, yielding fuel savings and reduced operating costs for all manner of vehicular fleets. This new customized modem, which works on multiple cellular and WiFi networks, is a logical extension of our wireless strategy moving from fixed and nomadic solutions and into mobile solutions with GPS information.
- Sales for the Terrace product were at run rate levels in Q2 as our lead MSO customer continued to deploy at the same pace as Q1 while other customer orders were closed. Derivative products and orders from other customers are expected to generate additional revenue going forward.
- In Q2, Vecima closed on the sale of its Saskatchewan 2.5-2.6 GHz spectrum receiving \$14 million in proceeds. As Vecima has previously stated, our spectrum assets hold considerable value and this sale is strong evidence of this. We also entered into an agreement to sell one of our buildings in Saskatoon for \$1.95 million and the transaction closed in the third quarter. We continue to look for opportunities to sell non-core assets and derive value for shareholders.

Value of Assets

- In the second quarter, Vecima strengthened its balance sheet considerably with the sale of a portion of its wireless spectrum. We eliminated our \$4.9 million operating line and have \$8.2 million in cash on the balance sheet as at December 31, 2010.
- The Company has a book value of \$136 million as at December 31, 2010, which, in the Company's view, does not reflect the higher market value of certain assets such as wireless spectrum and real estate. At the date of this report, the Company's market capitalization is just below \$100 million.

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Managing Expenses

We will continue to pursue exciting new product opportunities while also monitoring and containing expenses. Vecima ended the second quarter of fiscal 2011 with 830 employees, representing a decrease of 8% from June 30, 2010. While quarterly revenue can be lumpy, we plan to continue to match our expenses to our revenue moving forward.

Outlook

Our growth strategy is to remain focused on the introduction of new products as well as accessing new markets and new customers for our existing products. Vecima expects revenue for fiscal 2011 to be between \$85 million and \$95 million. Management has initiated further cost reductions that it believes will lead to a return to profitability from operations.

The Company's full consolidated financial statements and management's discussion and analysis for the three months and six months ended December 31, 2010 are available under the Company's profile at www.SEDAR.com, and at http://www.vecima.com/financials_ir.php.

A conference call and live audio webcast will be held on February 14, 2011 at 5 p.m. ET to discuss the Company's second quarter results. To participate in the teleconference, dial 800-319-4610 or 604-638-5340. The webcast will be available at http://www.vecima.com/events_ir.php.

About Vecima Networks

Vecima Networks Inc. (TSX:VCM) designs, manufactures and sells products that enable broadband access to cable, wireless and telephony networks. Vecima's hardware products incorporate original embedded software to meet the complex requirements of next-generation, high-speed digital networks. Service providers use Vecima's solutions to deliver services to a converging worldwide broadband market, including what are commonly known as "triple play" (voice, video and data) and "quadruple play" (voice, video, data and wireless) services. Vecima's solutions allow service providers to rapidly and cost-effectively bridge the final network segment that connects the system directly to end users, commonly referred to as "the last mile", by overcoming the bottleneck resulting from insufficient carrying capacity in legacy, last mile infrastructures. Vecima's products are directed at two principal markets: Converged Wired Solutions and Broadband Wireless. The Company has also developed and continues to focus on developing products to address emerging markets such as Voice over Internet Protocol, fibre to the home and IP video. More information is available at our website at www.vecima.com

Forward-Looking Statements

Certain statements in this press release may constitute forward-looking statements within the meaning of applicable securities laws. All statements other than statements of historical fact are

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forward-looking statements. These statements include but are not limited to statements regarding management's intentions, belief or current expectations with respect to market and general economic conditions, future costs and operating performance. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, and/or are beyond our control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include, but are not limited to, the current significant general economic uncertainty and credit and financial market volatility and the distinctive characteristics of Vecima's operations and industry that may have a material impact on, or constitute risk factors in respect of Vecima's future financial performance, as set forth under the heading "Risk Factors" in the Company's Annual Information Form dated September 28, 2010, a copy of which is available at www.sedar.com. In addition, although the forward-looking statements in this press release are based on what management believes are reasonable assumptions, such assumptions may prove to be incorrect. Consequently, readers should not place undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Vecima disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Vecima Networks

Alan Brick, Investor Relations Officer

250-881-1982

invest@vecima.com

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VECIMA NETWORKS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME AND RETAINED
(in thousands of Canadian dollars except net income per share data)

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	\$ 20,066	\$ 28,017	\$ 46,399	\$ 56,396
Cost of sales	14,135	17,257	30,370	35,518
Gross margin	5,931	10,760	16,029	20,878
Research and development	3,567	2,752	6,399	4,905
Sales and marketing	1,657	1,622	3,103	3,023
General and administrative	4,962	4,781	9,677	9,111
Stock-based compensation	18	45	63	90
Foreign exchange (gain) loss	74	216	(100)	795
Other (income)	(14,303)	(2,920)	(15,795)	(3,108)
	(4,025)	6,496	3,347	14,816
Operating income	9,956	4,264	12,682	6,062
Interest expense	163	48	273	121
Income before income taxes	9,793	4,216	12,409	5,941
Income taxes	2,828	1,270	3,581	1,777
Net income and Comprehensive income	6,965	2,946	8,828	4,164
Retained earnings, beginning of period	92,166	92,484	90,303	91,266
Retained earnings, end of period	\$ 99,131	\$ 95,430	\$ 99,131	\$ 95,430
Net income per share				
Basic and diluted	\$ 0.31	\$ 0.13	\$ 0.40	\$ 0.18
Weighted average number of Common Shares outstanding - basic and diluted	22,316,767	22,983,367	22,316,767	22,983,367

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VECIMA NETWORKS INC.
CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

	As at December 31, 2010	As at June 30, 2010
Assets		
Current assets		
Cash	\$ 8,222	\$ -
Marketable securities	786	795
Accounts receivable	19,824	27,999
Income Tax Receivable	2,762	2,754
Inventories	38,242	36,702
Current portion of leases receivable	227	281
Prepaid expenses	885	864
Other current assets	41	12
Current future tax assets	1,350	1,316
	<u>72,339</u>	<u>70,723</u>
Leases receivable	113	214
Property, plant and equipment	35,014	35,631
Deferred development costs	10,470	9,661
Intangible assets	2,450	2,519
Investment tax credit asset	27,727	24,829
Future tax assets	7,131	10,996
	<u>\$ 155,244</u>	<u>\$ 154,573</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ -	\$ 5,934
Accounts payable and accrued liabilities	10,681	13,654
Warranty accrual	530	500
Deferred revenue	2,899	2,452
Current portion of long-term debt	250	250
	<u>14,360</u>	<u>22,790</u>
Other long-term liabilities	983	648
Long-term debt	3,833	3,958
	<u>19,176</u>	<u>27,396</u>
Shareholders' equity		
Share capital	\$ 34,482	\$ 34,482
Contributed surplus	2,455	2,392
Retained earnings	99,131	90,303
	<u>136,068</u>	<u>127,177</u>
	<u>\$ 155,244</u>	<u>\$ 154,573</u>

VECIMA NETWORKS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

	Three months ended		Six months ended	
	December 31, 2010	2009	December 31, 2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from (used in) operating activities				
Net income	\$ 6,965	\$ 2,946	\$ 8,828	\$ 4,164
Add (deduct) items not requiring cash				
Gain on the sale of property, plant and equipment	-	(413)	(1,519)	(413)
Gain on the sale of intangible assets	(14,000)	(2,186)	(14,000)	(2,186)
Amortization of property, plant and equipment	1,424	1,460	2,834	2,850
Amortization of deferred development costs	1,747	1,433	3,785	2,695
Amortization of other assets	37	(17)	73	17
Stock-based compensation	18	45	63	90
Net change in non-cash working capital relating to operations	6,689	(2,836)	6,713	(5,893)
	2,880	432	6,777	1,324
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment	(1,517)	(1,993)	(2,648)	(2,541)
Proceeds from the sale of property, plant and equipment	-	1,152	750	1,152
Proceeds from the sale of intangible assets	14,000	2,300	14,000	2,300
Proceeds from the sale of marketable securities	-	-	-	56
Deferred development costs	(2,165)	(2,794)	(4,594)	(5,225)
Purchase of other assets	4	(22)	(4)	(22)
	10,322	(1,357)	7,504	(4,280)
Cash flows from (used in) financing activities				
Repayment of long-term debt	(66)	(63)	(125)	(125)
	(66)	(63)	(125)	(125)
Increase (decrease) in cash during the period	13,136	(988)	14,156	(3,081)
Bank indebtedness beginning of period,	(4,914)	(2,428)	(5,934)	(335)
Cash (Bank indebtedness), end of period	\$ 8,222	\$ (3,416)	\$ 8,222	\$ (3,416)