Vecima Reports Fiscal 2011 Q3 Results

VICTORIA – (May 13, 2011) – Vecima Networks Inc. ("Vecima" or "the Company") (TSX:VCM), today reported its fiscal 2011 third quarter and nine-month financial results for the period ended March 31, 2011. (All dollar amounts are in Canadian funds unless otherwise stated.)

"In the third quarter, Vecima was in a transition phase where legacy revenue declined and new product revenue had not yet ramped-up. As we announced in April, we have cut expenses and reduced our staff by 18% to facilitate the Company's return to operational profitability. This was the first time in Vecima's 23 year history that the Company was forced to lay-off a significant proportion of its staff. Since June 30, 2010, our headcount has been reduced by 28%. A number of one-time items occurred in the third quarter that adversely affected net income, including a severance charge of $1.5 million and an inventory write down of $1.6 million," said Dr. Surinder Kumar, President and CEO of Vecima.

"We have invested heavily in the research and development of four new products and have clearly been affected by the launch delays. Orders for three of these new products will ship in the fourth quarter. Despite Q3 falling short of our expectations, we continue to expect fiscal 2011 revenue to be in the low end of the $85 – $95 million range," Kumar continued.

Fiscal 2011 financial highlights:

- Revenue decreased 27% to $63.4 million in the first nine months of fiscal 2011 compared to $86.4 million in the same period a year earlier. Revenue from YourLink grew by 12% while Converged Wired Solutions and Broadband Wireless sales declined 27% and 51%, respectively. Revenue in the third quarter decreased 43% to $17.0 million compared with $30.0 million in the same period last year. YourLink revenue increased 12%, while Converged Wired Solutions and Broadband Wireless revenue decreased 39% and 76% respectively.

- Gross margin fell to 29%, providing a gross profit of $18.3 million in the first nine months of fiscal 2011, compared with a gross margin of 36% for the same period last year that provided a gross profit of $30.9 million. Gross margin was impacted by 3% due to a $1.6 million write-down of inventory and excess capacity also had a 2% impact. Gross margin decreased to 13% for the third quarter, providing a gross profit of $2.3 million, compared with a gross margin of 34% for the same period last year that provided a gross profit of $10.3 million. Gross margin in the quarter was impacted by 9% due to a $1.6 million write-down of inventory and excess capacity also had a 7% impact. The Company has taken steps to significantly reduce its production workforce. Management expects that cost reductions and increased sales in the following quarters will return the company to a gross margin of 30%-40%. However if the Canadian dollar continues to strengthen beyond $1.05 US it will result in downward pressure on margins.

- Net income in the first nine months of fiscal 2011 decreased 60% to $2.6 million, compared with $4.7 million in the same period last year. Net margin was 4% for the nine months ended March 31, 2011, compared with 5% for the first three quarters of last fiscal year. Net loss in the third quarter was $6.3 million, compared with a net income of $0.7 million in the three months ended March 31, 2010. Net loss was negative 37% for the three months ended March 31, 2011, compared with net margin of 2% for the third quarter last fiscal year.

Our strategy to recover sales in the presence of declining revenue from legacy products is based on the successful introduction and launch of our new products. Our ability to make this transition has clearly been affected by the timing of those launches:

- The final approval of TerraceQAM for deployment was delayed at our major MSO customer and this impacted the start of associated revenues in the third quarter. Late in the third quarter, the first phase of TerraceQAM was successfully approved by the MSO and initial, early stage deployments and field trials are under way currently. The second phase, which adds new features intended to enhance positioning in the hospitality HD market for the MSO's service offering is currently under approval testing by the MSO. Evaluation by our new OEM customer for TerraceQAM is progressing well and the channel partner is now engaged with other MSOs who are expressing interest in deployment. Vecima continues to receive indication from both customers that the demand for TerraceQAM remains strong.

- The response to Concierge has been positive. As announced last quarter, we completed development and began demonstrations of a second variant of the product that addresses a larger segment of the satellite network hospitality market. During the third quarter, we continued demonstrations of both variants of our Concierge product with prospective customers. We continue to believe and have received feedback that we are well 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 at a small scale within 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. The first customer has continued to purchase run-rate volumes of these modules and forecasts show continued demand with slight increases in upcoming quarters. In the second quarter, we successfully completed certification testing by the second OEM customer. As indicated in our previous quarterly reports, the market for our OEM partner's end product which utilizes this module is served by numerous Edge QAM competitors. We are shipping small quantities of these modules in the fourth quarter and subsequent increases will be contingent on the ability of Vecima and our OEM to successfully capture customers in the highly competitive target markets.

Revenue was also affected by reductions in legacy product orders:

- Broadband wireless sales declined by 76% in Q3 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 which had an unusually strong third quarter last year. We expect wireless sales in ISP markets to gain momentum going forward.

We made progress on the following new opportunities:

- Numerous milestones related to the software and hardware development of Vecima's new custom wireless modem for vehicle fleet management were completed during the third quarter. Some issues were uncovered during cellular certification testing which Vecima has now resolved. The retesting for certification is now underway and our lead customer has adjusted its launch schedule accordingly. The forecast continues to remain positive as the 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. Feedback from the customer indicates that the product and associated service are key elements of its strategic plan for upcoming periods. This new customized modem works on multiple cellular and WiFi networks and 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 declined in Q3. Our lead MSO customer continued to deploy at the same pace as Q2 while other customers delayed capital expenditures to future periods due to budget considerations. Derivative products and orders from other customers are expected to generate additional revenue going forward. We are seeing some renewed interest by large MSOs who are now moving towards a network wide all-digital transition, similar to the program conducted by our lead MSO customer.

Managing Expenses

We will continue to pursue exciting new product opportunities while also monitoring and containing expenses. Vecima's current headcount is 647, representing a decrease of 28% 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 in the low end of the $85 - $95 million range. Management has initiated 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 nine months ended March 31, 2011 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 May 13, 2011 at 1 p.m. ET to discuss the Company's third 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 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

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VECIMA NETWORKS INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME AND RETAINED EARNINGS

(in thousands of Canadian dollars except net income per share data)

	Three months ended March 31		Nine months ended March 31	
	2011	2010	2011	2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$ 17,004	$ 30,006	$ 63,403	$ 86,402
Cost of sales	14,733	19,736	45,103	55,537
Gross margin	2,271	10,270	18,300	30,865
Research and development	3,322	3,386	9,721	8,291
Sales and marketing	1,955	1,835	5,058	4,858
General and administrative	6,651	5,214	16,328	14,325
Stock-based compensation	34	14	97	104
Foreign exchange (gain) loss	120	(178)	20	617
Other (income)	(1,130)	(1,164)	(16,925)	(4,272)
	10,952	9,107	14,299	23,923
Operating income	(8,681)	1,163	4,001	6,942
Interest expense	72	205	345	326
Income before income taxes	(8,753)	958	3,656	6,616
Income taxes	(2,500)	241	1,081	1,936
Net income and Comprehensive income	(6,253)	717	2,575	4,680
Retained earnings, beginning of period	98,527	95,277	89,699	90,911
Retained earnings, end of period	92,274	95,994	$ 92,274	$ 95,591
Net income per share				
Basic and diluted	$ (0.28)	$ 0.03	$ 0.12	$ 0.22
Weighted average number of Common Shares outstanding - basic and diluted	22,316,767	22,983,367	22,316,767	22,983,367

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

		As at March 31, 2011		As at June 30, 2010
Assets				
Current assets				
Cash	$	6,611	$	-
Marketable securities		957		795
Accounts receivable		15,837		27,999
Income Tax Receivable		2,602		2,754
Inventories		36,709		36,702
Current portion of leases receivable		199		281
Prepaid expenses		1,284		864
Other current assets		41		12
Current future tax assets		1,350		1,316
		65,590		70,723
Leases receivable		101		214
Property, plant and equipment		32,915		35,631
Deferred development costs		10,646		9,661
Intangible assets		2,430		2,519
Investment tax credit asset		29,069		24,829
Future tax assets		9,882		11,247
	$	150,633	$	154,824
Liabilities				
Current liabilities				
Bank indebtedness	$	-	$	5,934
Accounts payable and accrued liabilities		12,713		14,509
Warranty accrual		530		500
Deferred revenue		3,141		2,452
Current portion of long-term debt		250		250
		16,634		23,645
Other long-term liabilities		983		648
Long-term debt		3,771		3,958
		21,388		28,251
Shareholders' equity				
Share capital	$	34,482	$	34,482
Contributed surplus		2,489		2,392
Retained earnings		92,274		89,699
		129,245		126,573
	$	150,633	$	154,824

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

	Three months ended March 31, 2011	Three months ended March 31, 2010	Nine months ended March 31, 2011	Nine months ended March 31, 2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from (used in) operating activities				
Net income	$ (6,253)	$ 717	$ 2,575	$ 4,680
Add (deduct) items not requiring cash				
Gain on the sale of property, plant and equipment	(543)		(2,062)	(413)
Gain on the sale of intangible assets	-	(1,156)	(14,000)	(3,342)
Amortization of property, plant and equipment	1,441	1,588	4,275	4,438
Amortization of deferred development costs	2,131	1,554	5,916	4,249
Amortization of other assets	38	8	111	25
Stock-based compensation	34	14	97	104
Net change in non-cash working capital relating to operations	2,727	(1,518)	9,440	(7,210)
	(425)	1,207	6,352	2,531
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment	(692)	(1,507)	(3,340)	(4,048)
Proceeds from the sale of property, plant and equipment	1,893	-	2,643	1,152
Proceeds from the sale of intangible assets	-	1,177	14,000	3,477
Proceeds from the sale of marketable securities	-	-	-	56
Deferred development costs, net of investment tax credits	(2,307)	(2,884)	(6,901)	(8,109)
Purchase of other assets	(18)	(2)	(22)	(24)
	(1,124)	(3,216)	6,380	(7,496)
Cash flows from (used in) financing activities				
Repayment of long-term debt	(62)	(62)	(187)	(187)
	(62)	(62)	(187)	(187)
(Decrease) increase in cash during the period	(1,611)	(2,071)	12,545	(5,152)
Cash (bank indebtedness) beginning of period,	8,222	(3,416)	(5,934)	(335)
Cash (Bank indebtedness), end of period	$ 6,611	$ (5,487)	$ 6,611	$ (5,487)