

AVIAT NETWORKS, INC.

Fiscal Year 2017 First Quarter Summary

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES AND REGULATION G DISCLOSURE

To supplement the consolidated financial statements presented in accordance with accounting principles generally accepted in the United States (“GAAP”), we provide additional measures of gross margin, research and development expenses, selling and administrative expenses, operating loss, income tax provision, loss from continuing operations attributable to Aviat Networks, basic and diluted net loss per share from continuing operations attributable to Aviat Networks, and adjusted earnings before interest, tax, depreciation and amortization (“Adjusted EBITDA”) attributable to Aviat Networks, adjusted to exclude certain costs, charges, gains and losses, as set forth below. We believe that these non-GAAP financial measures, when considered together with the GAAP financial measures provide information that is useful to investors in understanding period-over-period operating results separate and apart from items that may, or could, have a disproportionate positive or negative impact on results in any particular period. We also believe these non-GAAP measures enhance the ability of investors to analyze trends in our business and to understand our performance. In addition, we may utilize non-GAAP financial measures as a guide in our forecasting, budgeting and long-term planning process and to measure operating performance for some management compensation purposes. Any analysis of non-GAAP financial measures should be used only in conjunction with results presented in accordance with GAAP. Reconciliations of these non-GAAP financial measures with the most directly comparable financial measures calculated in accordance with GAAP follow.

Table 3
AVIAT NETWORKS, INC.
Fiscal Year 2017 First Quarter Summary
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES ⁽¹⁾
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended					
	September 30, 2016	% of Revenue	July 1, 2016	% of Revenue	October 2, 2015	% of Revenue
(In thousands, except percentages and per share amounts)						
GAAP gross margin	\$ 17,365	29.8 %	\$ 9,869	16.9 %	\$ 21,011	26.4 %
WTM inventory write-down	—		5,057		—	
Share-based compensation	41		28		36	
Non-GAAP gross margin	<u>17,406</u>	29.9 %	<u>14,954</u>	25.7 %	<u>21,047</u>	26.5 %
GAAP research and development expenses	\$ 4,943	8.5 %	\$ 5,057	8.7 %	\$ 5,476	6.9 %
Share-based compensation	(23)		(19)		(29)	
Non-GAAP research and development expenses	<u>4,920</u>	8.5 %	<u>5,038</u>	8.6 %	<u>5,447</u>	6.8 %
GAAP selling and administrative expenses	\$ 15,187	26.1 %	\$ 16,472	28.3 %	\$ 17,112	21.5 %
Share-based compensation	(394)		(407)		(428)	
Non-GAAP selling and administrative expenses	<u>14,793</u>	25.4 %	<u>16,065</u>	27.6 %	<u>16,684</u>	21.0 %
GAAP operating loss	\$ (2,925)	(5.0)%	\$ (13,256)	(22.8)%	\$ (1,598)	(2.0)%
WTM inventory write-down	—		5,057		—	
Share-based compensation	458		454		493	
Restructuring charges	160		1,596		21	
Non-GAAP operating loss	<u>(2,307)</u>	(4.0)%	<u>(6,149)</u>	(10.6)%	<u>(1,084)</u>	(1.4)%
GAAP income tax provision	\$ (2,470)	(4.2)%	\$ 779	1.3 %	\$ (12)	— %
Tax refund from Inland Revenue Authority of Singapore	3,741		—		—	
Adjustment to reflect pro forma tax rate	(971)		(479)		312	
Non-GAAP income tax provision	<u>300</u>	0.5 %	<u>300</u>	0.5 %	<u>300</u>	0.4 %

Three Months Ended

September 30, 2016	% of Revenue	July 1, 2016	% of Revenue	October 2, 2015	% of Revenue
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(In thousands, except percentages and per share amounts)

GAAP loss from continuing operations attributable to Aviat Networks	\$ (629)	(1.1)%	\$ (15,239)	(26.2)%	\$ (1,562)	(2.0)%
Share-based compensation	458		454		493	
Restructuring charges	160		1,596		21	
Nigeria FX loss on dividend receivable	210		1,245		—	
WTM inventory write-down	—		5,057		—	
Tax refund from Inland Revenue Authority of Singapore	(3,741)		—		—	
Adjustment to reflect pro forma tax rate	971		479		(312)	
Non-GAAP loss from continuing operations attributable to Aviat Networks	\$ (2,571)	(4.4)%	\$ (6,408)	(11.0)%	\$ (1,360)	(1.7)%

Basic and diluted loss per share from continuing operations attributable to Aviat Networks stockholders

Basic and Diluted:

GAAP	\$ (0.12)		\$ (2.90)		\$ (0.30)	
Non-GAAP	\$ (0.49)		\$ (1.22)		\$ (0.26)	

Basic and diluted shares used in computing loss per share from continuing operations

Basic and Diluted:

GAAP	5,295		5,259		5,206	
Non-GAAP	5,295		5,259		5,206	

ADJUSTED EBITDA:

GAAP loss from continuing operations attributable to Aviat Networks	\$ (629)	(1.1)%	\$ (15,239)	(26.2)%	\$ (1,562)	(2.0)%
Depreciation and amortization of property, plant and equipment	1,670		1,604		1,704	
Interest	(36)		13		73	
Share-based compensation	458		454		493	
Restructuring charges	160		1,596		21	
Nigeria FX loss on dividend receivable	210		1,245		—	
WTM inventory write-down	—		5,057		—	
Provision for income taxes	(2,470)		779		(12)	
Adjusted EBITDA attributable to Aviat Networks	\$ (637)	(1.1)%	\$ (4,491)	(7.7)%	\$ 717	0.9 %

- (1) The adjustments above reconcile our GAAP financial results to the non-GAAP financial measures used by us. Our non-GAAP loss from continuing operations attributable to Aviat Networks excluded share-based compensation, restructuring charges, foreign exchange loss on intercompany dividend receivable, specific one-time inventory write-down, tax refund from Inland Revenue Authority of Singapore and adjustment to reflect the pro forma tax rate. Adjusted EBITDA was determined by excluding depreciation and amortization on property, plant and equipment, interest, provision for or benefit from income taxes, and non-GAAP pre-tax adjustments, as set forth above, from the GAAP loss from continuing operations attributable to Aviat Networks. We believe that the presentation of these non-GAAP items provides meaningful supplemental information to investors, when viewed in conjunction with, and not in lieu of, our GAAP results. However, the non-GAAP financial measures have not been prepared under a comprehensive set of accounting rules or principles. Non-GAAP information should not be considered in isolation from, or as a substitute for, information prepared in accordance with GAAP. Moreover, there are material limitations associated with the use of non-GAAP financial measures.