UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 27, 2019

or

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

For the transition period from _______ to _______

Commission File Number 001-33278

AVIAT NETWORKS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-5961564**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
200 Parker Dr., Suite C100A, Austin, Texas	**78728**
(Address of principal executive offices)	**(Zip Code)**

(408) 941-7100
(Registrant's telephone number, including area code)

860 N. McCarthy Blvd., Suite 200, Milpitas, California 95035
(Former name, former address and former fiscal year, if changed since last report)

Indicate by checkmark whether the registrant (l) 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 x No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	x
Emerging growth company	o		

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 7(a)(2)(B) of the Securities Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock	AVNW	The Nasdaq Global Select Market

The number of shares outstanding of the registrant's Common Stock as of January 31, 2020 was 5,397,283 shares.

AVIAT NETWORKS, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Quarterly Period Ended December 27, 2019

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AVIAT NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except share and par value amounts)	December 27, 2019	June 28, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 38,067	$ 31,946
Accounts receivable, net	44,387	51,937
Unbilled receivables	27,343	27,780
Inventories	13,300	8,573
Customer service inventories	1,174	936
Other current assets	6,055	4,825
Total current assets	130,326	125,997
Property, plant and equipment, net	17,800	17,255
Deferred income taxes	13,818	13,864
Right of use assets	5,592	—
Other assets	12,283	12,077
TOTAL ASSETS	$ 179,819	$ 169,193
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term debt	$ 9,000	$ 9,000
Accounts payable	38,344	35,605
Accrued expenses	22,071	22,555
Short-term lease liabilities	3,310	—
Advance payments and unearned revenue	19,137	13,962
Restructuring liabilities	1,688	1,089
Total current liabilities	93,550	82,211
Unearned revenue	8,726	9,662
Long-term lease liabilities	2,590	—
Other long-term liabilities	610	820
Reserve for uncertain tax positions	5,062	3,606
Deferred income taxes	814	1,378
Total liabilities	111,352	97,677
Commitments and contingencies (Note 12)		
Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 300,000,000 shares authorized, 5,414,480 shares issued and outstanding at December 27, 2019; 5,359,695 shares issued and outstanding at June 28, 2019	54	54
Additional paid-in-capital	813,867	815,196
Accumulated deficit	(732,615)	(730,998)
Accumulated other comprehensive loss	(12,839)	(12,736)
Total equity	68,467	71,516
TOTAL LIABILITIES AND EQUITY	$ 179,819	$ 169,193

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AVIAT NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended December 27, 2019	Three Months Ended December 28, 2018	Six Months Ended December 27, 2019	Six Months Ended December 28, 2018
Revenues:				
Revenue from product sales	$ 34,152	$ 41,956	$ 70,746	$ 81,081
Revenue from services	21,845	23,132	43,865	44,511
Total revenues	55,997	65,088	114,611	125,592
Cost of revenues:				
Cost of product sales	22,968	26,159	43,790	52,958
Cost of services	14,710	16,439	29,946	32,219
Total cost of revenues	37,678	42,598	73,736	85,177
Gross margin	18,319	22,490	40,875	40,415
Operating expenses:				
Research and development expenses	4,978	5,316	10,194	10,253
Selling and administrative expenses	14,457	14,291	29,101	27,997
Restructuring charges	381	—	1,558	796
Total operating expenses	19,816	19,607	40,853	39,046
Operating (loss) income	(1,497)	2,883	22	1,369
Interest income	120	43	206	94
Interest expense	(1)	(76)	(4)	(81)
(Loss) income before income taxes	(1,378)	2,850	224	1,382
Provision for (benefit from) income taxes	293	540	1,841	(178)
Net (loss) income	$ (1,671)	$ 2,310	$ (1,617)	$ 1,560
Net (loss) income per share of common stock outstanding:				
Basic	$ (0.31)	$ 0.43	$ (0.30)	$ 0.29
Diluted	$ (0.31)	$ 0.41	$ (0.30)	$ 0.28
Weighted-average shares outstanding:				
Basic	5,427	5,397	5,387	5,382
Diluted	5,427	5,627	5,387	5,663

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AVIAT NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

	Three Months Ended		Six Months Ended	
(In thousands)	December 27, 2019	December 28, 2018	December 27, 2019	December 28, 2018
Net (loss) income	$ (1,671)	$ 2,310	$ (1,617)	$ 1,560
Other comprehensive income (loss):				
Net change in cumulative translation adjustments	410	(218)	(103)	(338)
Other comprehensive income (loss)	410	(218)	(103)	(338)
Comprehensive (loss) income	$ (1,261)	$ 2,092	$ (1,720)	$ 1,222

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AVIAT NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six Months Ended December 27, 2019	Six Months Ended December 28, 2018
Operating Activities		
Net (loss) income	$ (1,617)	$ 1,560
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, plant and equipment	2,115	2,384
Recovery from uncollectible receivables	(54)	(212)
Share-based compensation	808	938
Deferred tax assets, net	(517)	169
Charges for inventory and customer service inventory write-downs	514	156
Loss on disposition of property, plant and equipment, net	10	15
Changes in operating assets and liabilities:		
Accounts receivable	7,354	(3,336)
Unbilled receivables	498	(9,533)
Inventories	(4,875)	962
Customer service inventories	(589)	(23)
Accounts payable	2,384	4,628
Accrued expenses	(297)	(2,735)
Advance payments and unearned revenue	4,121	4,205
Income taxes payable or receivable	1,800	139
Other assets and liabilities	(850)	117
Net cash provided by (used in) operating activities	10,805	(566)
Investing Activities		
Payments for acquisition of property, plant and equipment	(2,417)	(3,236)
Net cash used in investing activities	(2,417)	(3,236)
Financing Activities		
Proceeds from borrowings	18,000	18,000
Repayments of borrowings	(18,000)	(18,000)
Payments for repurchase of common stock	(1,401)	(1,436)
Payments for taxes related to net settlement of equity awards	(746)	(536)
Proceeds from issuance of common stock under employee stock plans	10	—
Net cash used in financing activities	(2,137)	(1,972)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(129)	(164)
Net increase (decrease) in cash, cash equivalents, and restricted cash	6,122	(5,938)
Cash, cash equivalents, and restricted cash, beginning of period	32,201	37,764
Cash, cash equivalents, and restricted cash, end of period	$ 38,323	$ 31,826

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AVIAT NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	Three Months Ended December 27, 2019					
	Common Stock					
(In thousands, except share amounts)	Shares	$ Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance as of September 27, 2019	**5,444,671**	**$ 54**	**$ 814,113**	**$ (730,944)**	**$ (13,249)**	**$ 69,974**
Net loss	—	—	—	(1,671)	—	(1,671)
Other comprehensive income, net of tax	—	—	—	—	410	410
Issuance of common stock under employee stock plans	15,896	—	6	—	—	6
Stock repurchase	(46,087)	—	(653)	—	—	(653)
Share-based compensation	—	—	401	—	—	401
Balance as of December 27, 2019	**5,414,480**	**$ 54**	**$ 813,867**	**$ (732,615)**	**$ (12,839)**	**$ 68,467**

	Three Months Ended December 28, 2018					
	Common Stock					
(In thousands, except share amounts)	Shares	$ Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance as of September 28, 2018	**5,349,778**	**$ 53**	**$ 816,483**	**$ (741,487)**	**$ (12,725)**	**$ 62,324**
Net income	—	—	—	2,310	—	2,310
Other comprehensive loss, net of tax	—	—	—	—	(218)	(218)
Issuance of common stock under employee stock plans	152,051	1	7	—	—	8
Shares withheld for taxes related to vesting of equity awards	(34,466)	—	(554)	—	—	(554)
Stock repurchase	(68,006)	—	(1,046)	—	—	(1,046)
Share-based compensation	—	—	502	—	—	502
Balance as of December 28, 2018	**5,399,357**	**$ 54**	**$ 815,392**	**$ (739,177)**	**$ (12,943)**	**$ 63,326**

(In thousands, except share amounts)	Six Months Ended December 27, 2019										
	Common Stock			Additional Paid-in Capital		Accumulated Deficit		Accumulated Other Comprehensive Loss		Total Stockholders' Equity
	Shares		$ Amount								
Balance as of June 28, 2019	**5,359,695**		**54**		**815,196**		**(730,998)**		**(12,736)**		**71,516**
Net loss	—		—		—		(1,617)		—		(1,617)
Other comprehensive loss, net of tax	—		—		—		—		(103)		(103)
Issuance of common stock under employee stock plans	208,708		2		8		—		—		10
Shares withheld for taxes related to vesting of equity awards	(52,384)		(1)		(745)		—		—		(746)
Stock repurchase	(101,539)		(1)		(1,400)		—		—		(1,401)
Share-based compensation	—		—		808		—		—		808
Balance as of December 27, 2019	**5,414,480**	**$**	**54**	**$**	**813,867**	**$**	**(732,615)**	**$**	**(12,839)**	**$**	**68,467**

(In thousands, except share amounts)	Six Months Ended December 28, 2018										
	Common Stock			Additional Paid-in Capital		Accumulated Deficit		Accumulated Other Comprehensive Loss		Total Stockholders' Equity
	Shares		$ Amount								
Balance as of June 29, 2018	**5,351,155**		**54**		**816,426**		**(746,359)**		**(12,605)**		**57,516**
Cumulative-effect adjustment for ASC Topic 606	—		—		—		5,622		—		5,622
Net income	—		—		—		1,560		—		1,560
Other comprehensive loss, net of tax	—		—		—		—		(338)		(338)
Issuance of common stock under employee stock plans	174,253		1		17		—		—		18
Shares withheld for taxes related to vesting of equity awards	(34,466)		—		(554)		—		—		(554)
Stock repurchase	(91,585)		(1)		(1,435)		—		—		(1,436)
Share-based compensation	—		—		938		—		—		938
Balance as of December 28, 2018	**5,399,357**	**$**	**54**	**$**	**815,392**	**$**	**(739,177)**	**$**	**(12,943)**	**$**	**63,326**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. The Company and Basis of Presentation

The Company

Aviat Networks, Inc. (the “Company,” “we,” “us,” and “our”) designs, manufactures, and sells a range of wireless networking solutions and services to mobile and fixed telephone service providers, private network operators, government agencies, transportation and utility companies, public safety agencies, and broadcast system operators across the globe. Due to the volume of our international sales, especially in developing countries, we may be susceptible to a number of political, economic, and geographic risks that could harm our business as outlined in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 28, 2019. Our products include broadband wireless access base stations and customer premises equipment for fixed and mobile, point-to-point digital microwave radio systems for access, backhaul, trunking, and license-exempt applications, supporting new network deployments, network expansion, and capacity upgrades.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and with the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, the statements do not include all information and footnotes required by U.S. GAAP for annual consolidated financial statements. In the opinion of our management, such interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows for such periods. The results for the three and six months ended December 27, 2019 are not necessarily indicative of the results that may be expected for the full fiscal year or future operating periods. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2019.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated.

We operate on a 52-week or 53-week year ending on the Friday closest to June 30. The first two quarters of fiscal 2020 and fiscal 2019 included 13 weeks in each quarter. Fiscal year 2020 will be comprised of 53 weeks and will end on July 3, 2020.

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in accordance with U.S. GAAP requires us to make estimates, assumptions and judgments affecting the amounts reported and related disclosures. Estimates are based upon historical factors, current circumstances and the experience and judgment of our management. We evaluate our estimates and assumptions on an ongoing basis and may employ outside experts to assist us in making these evaluations. Changes in such estimates, based on more accurate information, or different assumptions or conditions, may affect amounts reported in future periods. Such estimates affect significant items, including revenue recognition, provision for uncollectible receivables, inventory valuation, valuation allowances for deferred tax assets, uncertainties in income taxes, lease liabilities, restructuring obligations, product warranty obligations, share-based awards, contingencies, recoverability of long-lived assets and useful lives of property, plant and equipment.

Summary of Significant Accounting Policies

There have been no material changes in our significant accounting policies as of and for the six months ended December 27, 2019, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended June 28, 2019, with the exception of our adoption of Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (ASU 2016-02) (“ASC 842”). See Note 4, “Leases” to the Notes to unaudited condensed consolidated financial statements for discussion of the impact of the adoption of this standard on our policies for leases.

Accounting Standards Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASC 842, which amends the existing accounting standards for leases. The new standard requires lessees to record a right-of-use asset and a corresponding lease liability on the balance sheet (with the exception of short-term leases). For lessees, leases will continue to be classified as either operating or financing in the income statement. We adopted ASC 842, effective June 29, 2019, using the modified retrospective transition method with the cumulative effect recognized as an adjustment to the opening balance of our accumulated deficit. Prior-period financial statements were not retrospectively restated. We elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, assessment of whether a contract was or contains a lease, and initial direct costs for leases that existed prior to June 28, 2019. We also elected not to recognize right-of-use ("ROU") assets and lease liabilities for leases with an initial term of 12 months or less. We elected not to apply the hindsight practical expedient when determining lease term and assessing impairment of ROU assets. See Note 4, "Leases" to the Notes to our unaudited condensed consolidated financial statements for more information.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation: Improvement to Nonemployees Share-Based Payment Accounting* (ASU 2018-07), which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. This ASU is effective for fiscal years beginning after December 15, 2018. We adopted this update during the first quarter of fiscal 2020. The adoption had no material impact on our unaudited condensed consolidated financial statements.

Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract.* This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 will be effective for us in our first quarter of fiscal 2021, with early adoption permitted. The standard can be adopted either using the prospective or retrospective transition approach. We are evaluating the effect the adoption of the standard will have on our unaudited condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). The update eliminates, adds, and modifies certain disclosure requirements for fair value measurements. ASU 2018-13 will be effective for us in our first quarter of fiscal 2021 and early adoption is permitted of the entire standard or only the provisions that eliminate or modify disclosure requirements. We are evaluating the impact the adoption of ASU 2018-13 will have on our unaudited condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) and also issued subsequent amendments to the initial guidance: ASU 2018-19, ASU 2019-04, and ASU 2019-05 (collectively, Topic 326). Topic 326 requires measurement and recognition of expected credit losses for financial assets held. Topic 326 will be effective for us in our first quarter of fiscal 2024, and earlier adoption is permitted. We are evaluating the impact the adoption of Topic 326 will have on our unaudited condensed consolidated financial statements.

Note 2. Net (Loss) Income Per Share of Common Stock

Net (loss) income per share is computed using the two-class method, by dividing net income attributable to us by the weighted-average number of shares of our outstanding common stock and participating securities outstanding. Our restricted shares contain rights to receive non-forfeitable dividends and therefore are considered to be participating securities and included in the calculations of net income per basic and diluted common share. Undistributed losses are not allocated to unvested restricted shares as the unvested restricted shares are not contractually obligated to share our losses. The impact on earnings per share of the participating securities under the two-class method was immaterial.

The following table presents the computation of basic and diluted net (loss) income per share attributable to our common stockholders:

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	December 27, 2019	December 28, 2018	December 27, 2019	December 28, 2018
Numerator:				
Net (loss) income	$ (1,671)	$ 2,310	$ (1,617)	$ 1,560
Denominator:				
Weighted-average shares outstanding, basic	5,427	5,397	5,387	5,382
Effect of potentially dilutive equivalent shares	—	230	—	281
Weighted-average shares outstanding, diluted	5,427	5,627	5,387	5,663
Net (loss) income per share of common stock outstanding:				
Basic	$ (0.31)	$ 0.43	$ (0.30)	$ 0.29
Diluted	$ (0.31)	$ 0.41	$ (0.30)	$ 0.28

The following table summarizes the weighted-average equity awards that were excluded from the diluted net (loss) income per share calculations since they were anti-dilutive:

(In thousands)	Three Months Ended		Six Months Ended	
	December 27, 2019	December 28, 2018	December 27, 2019	December 28, 2018
Stock options	406	412	392	376
Restricted stock units and performance stock units	171	52	156	32
Total shares of common stock excluded	577	464	548	408

Note 3. Revenue Recognition

We recognize revenue by applying the following five-step approach: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Revenue from product sales is generated predominately from the sales of products manufactured by third-party manufacturers to whom we have outsourced our manufacturing processes. Printed circuit assemblies, mechanical housings, and packaged modules are manufactured by contract manufacturing partners, with periodic business reviews of material levels and obsolescence. Product assembly, product testing, complete system integration, and system testing may either be performed within our own facilities or at the locations of our third-party manufacturers.

Revenue from services includes certain installation, extended warranty, customer support, consulting, training, and education. Maintenance and support services are generally offered to our customers over a specified period of time and from sales and subsequent renewals of maintenance and support contracts. The services noted are recognized based on an over-time recognition model using the cost input method.

Revenues related to certain contracts for customized network solutions are recognized over time using the cost input method. In using this input method, we generally apply the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. Recognition of profit on these contracts requires estimates of the total contract value, the total cost at completion, and the measurement of progress towards completion. Significant judgment is required when estimating total contract costs and progress to completion on the arrangements, as well as whether a loss is expected to be incurred on the contract. If circumstances arise that change the original estimates of revenues, costs, or extent of progress toward completion, revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that gave rise to the revision become known to us. We perform ongoing profitability analysis of our service contracts accounted for under this method in order to determine whether the latest estimates of revenues, costs, and profits require updating. If at any time these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately. We establish billing terms at the time project deliverables and milestones are agreed. Revenues recognized in excess of the amounts invoiced to clients are classified as unbilled receivables on the unaudited condensed consolidated balance sheet.

Contracts and customer purchase orders are used to determine the existence of an arrangement. In addition, shipping documents and customer acceptances, when applicable, are used to verify delivery and transfer of control. We typically satisfy our performance obligations upon shipment or delivery of product depending on the contractual terms. Payment terms to customers generally range from net 30 to 120 days from invoice, which are considered to be standard payment terms. We assess our ability to collect from our customers based primarily on the creditworthiness and past payment history of the customer.

While our customers do not have the right of return, we reserve for estimated product returns as an offset to revenue based primarily on historical trends. Actual product returns may be different than what was estimated. These factors and unanticipated changes in economic and industry condition could make actual results differ from our return estimates.

We present transactional taxes such as sales and use tax collected from customers and remitted to government authorities on a net basis.

Bill-and-Hold Sales

Certain customer arrangements consist of bill-and-hold characteristics under which transfer of control has been met (including the passing of title and significant risk and reward of ownership to the customers). Therefore, the customers can direct the use of the bill-and-hold inventory while we retain physical possession of the product until it is installed at a customer site at a point in time in the future.

Termination Rights

The contract term is determined on the basis of the period over which the parties to the contract have present enforceable rights and obligations. Certain customer contracts include a termination for convenience clause that allows the customer to terminate services without penalty, upon advance notification. We concluded that the duration of support contracts does not extend beyond the non-cancellable portion of the contract.

Variable Consideration

The consideration associated with customer contracts is generally fixed. Variable consideration includes discounts, rebates, refunds, credits, incentives, penalties, or other similar items. The amount of consideration that can vary is not a substantial portion of total consideration.

Variable consideration estimates will be re-assessed at each reporting period until a final outcome is determined. The changes to the original transaction price due to a change in estimated variable consideration will be applied on a retrospective basis, with the adjustment recorded in the period in which the change occurs. Changes to variable consideration will be tracked and material changes disclosed.

Stand-alone Selling Price

Stand-alone selling price is the price at which an entity would sell a good or service on a stand-alone (or separate) basis at contract inception. Under the model, the observable price of a good or service sold separately provides the best evidence of stand-alone selling price. However, in certain situations, stand-alone selling prices will not be readily observable and the entity must estimate the stand-alone selling price.

When allocating on a relative stand-alone selling price basis, any discount provided in the contract is allocated proportionately to all of the performance obligations in the contract.

The majority of products and services that we offer have readily observable selling prices. For products and services that do not, we estimate stand-alone selling price using the market assessment approach based on expected selling price and adjust those prices as necessary to reflect our costs and margins. As part of our stand-alone selling price policy, we review product pricing on a periodic basis to identify any significant changes and revise our expected selling price assumptions as appropriate.

Shipping and Handling

Shipping and handling costs are included as a component of costs of product sales in our unaudited condensed consolidated statements of operations because they are also included in revenue that we bill our customers.

Costs to Obtain a Contract

We have assessed the treatment of costs to obtain or fulfill a contract with a customer. Under ASC 606, we capitalize sales commissions related to multi-year service contracts and amortize the asset over the period of benefit, which is the estimated service period. Sales commissions paid on contract renewals, including service contract renewals, is commensurate with the sales commissions paid on the initial contracts.

We elected the practical expedient to expense sales commissions as incurred when the amortization period of the related asset is one year or less. These costs are recorded as sales and marketing expense and included on our unaudited condensed consolidated balance sheet as accrued expenses until paid. Our amortization expense was not material for the three and six months ended December 27, 2019.

Contract Balances, Performance Obligations, and Backlog

The following table provides information about receivables and liabilities from contracts with customers (in thousands):

	December 27, 2019	June 28, 2019
Contract Assets		
Accounts receivable, net	$ 44,387	$ 51,937
Unbilled receivables	27,343	27,780
Capitalized commissions	1,206	955
Contract Liabilities		
Advance payments and unearned revenue	19,137	13,962
Unearned revenue, long-term	8,726	9,662

Significant changes in contract balances may arise as a result of recognition over time for services, transfer of control for equipment, and periodic payments (both in arrears and in advance).

From time to time, we may experience unforeseen events that could result in a change to the scope or price associated with an arrangement. When such events occur, we update the transaction price and measure of progress for the performance obligation and recognize the change as a cumulative catch-up to revenue. Because of the nature and type of contracts we engage in, the timeframe to completion and satisfaction of current and future performance obligations can shift; however, this will have no impact on our future obligation to bill and collect.

As of December 27, 2019, we had $27.9 million in advance payments and unearned revenue and long-term unearned revenue, of which approximately 45% is expected to be recognized as revenue in fiscal 2020 and the remainder thereafter. During the three and six months ended December 27, 2019 we recognized approximately $2.4 million and $5.6 million, respectively, in maintenance service revenue which was included in advance payments and unearned revenue at the beginning of the reporting period.

Remaining Performance Obligations

The aggregate amount of transaction price allocated to our unsatisfied performance obligations (or partially unsatisfied) was approximately $73.8 million at December 27, 2019. Of this amount, we expect to recognize approximately 70% as revenue during the next 12 months, with the remaining amount to be recognized as revenue within two to five years.

Note 4. Leases

On June 29, 2019, the first day of our fiscal 2020, we adopted ASC 842 using the modified retrospective transition method, which requires a cumulative-effect adjustment, if any, to the opening balance of accumulated deficit to be recognized on the date of adoption with prior periods not restated.

We lease facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 20 years and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to 3 years.

We determine if an arrangement contains a lease at inception. These operating leases are included in "Right of use assets" on our December 27, 2019 unaudited condensed consolidated balance sheets and represent our right to use the underlying asset for the lease term. Our obligation to make lease payments are included in "Short-term lease liabilities" and "Long-term lease liabilities" on our December 27, 2019 unaudited condensed consolidated balance sheets. We did not enter into any finance leases during the six months ended December 27, 2019.

Operating lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we used the incremental borrowing rate based on the remaining lease term at commencement date in determining the present value of future payments. The operating lease ROU assets also include any lease payments made and exclude lease incentives and initial direct costs incurred. Variable lease payments are expensed as incurred and are not included within the ROU asset and lease liability calculation. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Certain of our lease arrangements include non-lease components and we account for non-lease components together with lease components for all such lease arrangements.

Leases with an initial term of 12 months or less are not recorded on our balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term.

Adoption of ASC 842

Upon our adoption of ASC 842, we recorded total ROU assets of $7.9 million, with corresponding liabilities of $8.3 million, on our unaudited condensed consolidated balance sheets. The ROU assets include adjustments for prepayments and accrued lease payments. The adoption did not impact our prior year condensed consolidated statements of operations and statements of cash flows. As of December 27, 2019, total ROU assets were approximately $5.6 million, and short-term lease liabilities and long-term lease liabilities were approximately $3.3 million and $2.6 million, respectively. Cash paid for lease liabilities was $1.3 million and $2.5 million for the three and six months ended December 27, 2019, respectively. During the three and six months ended December 27, 2019, we obtained $0.1 million of right-of-use assets in exchange for new operating lease obligations.

The following summarizes our lease costs, lease term and discount rate for the three and six months ended December 27, 2019 (in thousands, except for weighted average):

	Three Months Ended December 27, 2019	Six Months Ended December 27, 2019
	(In thousands)	
Operating lease costs	$ 526	$ 846
Short-term lease costs	287	771
Variable lease costs	93	156
Total lease costs	$ 906	$ 1,773

Weighted average remaining lease term	4.9 years
Weighted average discount rate	6.6%

As of December 27, 2019, our future minimum lease payments under all non-cancelable operating leases with an initial term in excess of one year were as follows (in thousands):

	Amount
	(In thousands)
Remainder of 2020	$ 2,708
2021	1,537
2022	502
2023	244
2024	232
Thereafter	2,016
Total lease payments	7,239
Less: interest	(1,339)
Present value of lease liabilities	$ 5,900

Prior to our adoption of the new lease accounting standard, as of June 28, 2019, our future minimum lease payments under all non-cancelable operating leases were as follows:

Fiscal years	**Amount**
	(In thousands)
2020	$ 2,052
2021	1,268
2022	456
2023	243
2024	249
Thereafter	2,090
Total	$ 6,358

Note 5. Balance Sheet Components

Cash, Cash Equivalents, and Restricted Cash

The following table provides a summary of our cash, cash equivalents, and restricted cash reported within our unaudited condensed consolidated balance sheets that reconciles to the corresponding amount in our unaudited condensed consolidated statement of cash flows:

(In thousands)	**December 27, 2019**	**June 28, 2019**
Cash and cash equivalents	$ 38,067	$ 31,946
Restricted cash included in other assets	256	255
Total cash, cash equivalents, and restricted cash in the Statement of Cash Flows	$ 38,323	$ 32,201

Accounts Receivable, net

Our net accounts receivable are summarized below:

(In thousands)	December 27, 2019	June 28, 2019
Accounts receivable	$ 46,248	$ 53,539
Less: Allowances for collection losses	(1,861)	(1,602)
Total accounts receivable, net	$ 44,387	$ 51,937

Inventories

Our inventories are summarized below:

(In thousands)	December 27, 2019	June 28, 2019
Finished products	$ 8,296	$ 4,894
Raw materials and supplies	5,004	3,679
Total inventories	$ 13,300	$ 8,573
Consigned inventories included within raw materials and supplies	$ 1,502	$ 1,649

We record recovery or charges to adjust our inventory and customer service inventory due to excess and obsolete inventory resulting from lower sales forecast, product transitioning, or discontinuance. The recovery or charges during the three and six months ended December 27, 2019 and December 28, 2018 were classified in cost of product sales as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	December 27, 2019	December 28, 2018	December 27, 2019	December 28, 2018
Excess and obsolete inventory charges (recovery)	$ 23	$ (221)	$ 169	$ (246)
Customer service inventory write-downs	154	200	345	402
Total inventory charges	$ 177	$ (21)	$ 514	$ 156

Property, Plant and Equipment, net

Our property, plant and equipment, net are summarized below:

(In thousands)	December 27, 2019	June 28, 2019
Land	$ 710	$ 710
Buildings and leasehold improvements	11,688	11,668
Software	17,680	17,556
Machinery and equipment	52,027	49,733
Total property, plant and equipment, gross	82,105	79,667
Less: Accumulated depreciation and amortization	(64,305)	(62,412)
Total property, plant and equipment, net	$ 17,800	$ 17,255

Included in the total plant, property and equipment above were $3.6 million and $2.8 million of assets in progress which have not been placed in service as of December 27, 2019 and June 28, 2019, respectively. Depreciation and amortization expense related to property, plant and equipment, including amortization of software developed for internal use, was as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	**December 27, 2019**	**December 28, 2018**	**December 27, 2019**	**December 28, 2018**
Depreciation and amortization	$ 1,077	$ 1,096	$ 2,115	$ 2,384

Accrued Expenses

Our accrued expenses are summarized below:

(In thousands)	**December 27, 2019**	**June 28, 2019**
Accrued compensation and benefits	$ 7,729	$ 7,583
Accrued agent commissions	1,961	2,035
Accrued warranties	3,197	3,323
Other	9,184	9,614
Total accrued expenses	$ 22,071	$ 22,555

Accrued Warranties

We accrue for the estimated cost to repair or replace products under warranty. Changes in our warranty liability, which is included as a component of accrued expenses in our unaudited condensed consolidated balance sheets were as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	**December 27, 2019**	**December 28, 2018**	**December 27, 2019**	**December 28, 2018**
Balance as of the beginning of the period	$ 3,412	$ 3,216	$ 3,323	$ 3,196
Warranty provision recorded during the period	253	620	757	1,166
Consumption during the period	(468)	(420)	(883)	(946)
Balance as of the end of the period	$ 3,197	$ 3,416	$ 3,197	$ 3,416

Advance Payments and Unearned Revenue

Our advance payments and unearned revenue are summarized below:

(In thousands)	**December 27, 2019**	**June 28, 2019**
Advance payments	$ 2,173	$ 1,534
Unearned revenue	16,964	12,428
Total advance payments and unearned revenue	$ 19,137	$ 13,962

Excluded from the balances above are $8.7 million and $9.7 million in long-term unearned revenue as of December 27, 2019 and June 28, 2019, respectively.

Note 6. Fair Value Measurements of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal market (or most advantageous market in the absence of a principal market) for the asset or liability in an orderly transaction between market participants as of the measurement date. We maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value and establish a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2 — Observable market-based inputs or observable inputs that are corroborated by market data; and
- 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 amounts, estimated fair values, and valuation input levels of our assets and liabilities that are measured at fair value on a recurring basis as of December 27, 2019 and June 28, 2019 were as follows:

	December 27, 2019		June 28, 2019		
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**	**Valuation Inputs**
Assets:					
Cash and cash equivalents:					
Money market funds	$ 19,179	$ 19,179	$ 15,121	$ 15,121	Level 1
Bank certificates of deposit	$ 3,539	$ 3,539	$ 1,989	$ 1,989	Level 2
Liabilities:					
Other accrued expenses:					
Foreign exchange forward contracts	$ —	$ —	$ 7	$ 7	Level 2

We classify items within Level 1 if quoted prices are available in active markets. Our Level 1 items mainly are money market funds. As of December 27, 2019 and June 28, 2019, these money market funds were valued at $1.00 net asset value per share.

We classify items in Level 2 if the observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes, or alternative pricing sources are available with reasonable levels of price transparency. Our bank certificates of deposit and foreign exchange forward contracts are classified within Level 2. Foreign currency forward contracts are measured at fair value using observable foreign currency exchange rates. The changes in fair value related to our foreign currency forward contracts were recorded in cost of revenues on our unaudited condensed consolidated statements of operations.

As of December 27, 2019 and June 28, 2019, we did not have any recurring assets or liabilities that were valued using significant unobservable inputs.

Our policy is to recognize asset or liability transfers among Level 1, Level 2, and Level 3 as of the actual date of the events or change in circumstances that caused the transfer. During the first six months of fiscal 2020 and 2019, we had no transfers between levels of the fair value hierarchy of our assets or liabilities measured at fair value.

Note 7. Credit Facility and Debt

On June 10, 2019, we entered into Amendment No. 2 to Third Amended and Restated Loan and Security Agreement with Silicon Valley Bank (the "SVB Credit Facility"). The SVB Credit Facility expires on June 29, 2020. The SVB Credit Facility provides for a $25.0 million accounts receivable formula-based revolving credit facility that can be borrowed by our U.S. company, with a $25.0 million sublimit that can be borrowed by our Singapore subsidiary. Loans may be advanced under the SVB Credit Facility based on a borrowing base equal to a specified percentage of the value of eligible accounts of the borrowers under the SVB Credit Facility. The borrowing base is subject to certain eligibility criteria. Availability under the accounts receivable formula based revolving credit facility can also be utilized to issue letters of credit with a $12.0 million sublimit. We may prepay loans under the SVB Credit Facility in whole or in part at any time without premium or penalty. As of December 27, 2019, available credit under the SVB Credit Facility was $14.5 million, reflecting the calculated borrowing base of $25.0 million less existing borrowings of $9.0 million and outstanding letters of credit of $1.5 million.

The SVB Credit Facility carries an interest rate computed, at our option, based on either (i) at the prime rate reported in the Wall Street Journal plus a spread of 0.50% to 1.50%, with such spread determined based on our adjusted quick ratio; or (ii) if we satisfy a minimum adjusted quick ratio, a LIBOR rate determined in accordance with the SVB Credit Facility, plus a spread of 2.75%. Any outstanding Singapore subsidiary borrowed loans shall bear interest at an additional 2.00% above the applicable prime or LIBOR rate. During the first six months of fiscal 2020, the weighted-average interest rate on our outstanding loan was 5.46%. As of December 27, 2019 and June 28, 2019, our outstanding debt balance under the SVB Credit Facility was $9.0 million, and the interest rate was 5.25% and 6.00%, respectively.

The SVB Credit Facility contains quarterly financial covenants including minimum adjusted quick ratio and minimum profitability (EBITDA) requirements. In the event our adjusted quick ratio falls below a certain level, cash received in our accounts with Silicon Valley Bank may be directly applied to reduce outstanding obligations under the SVB Credit Facility. The SVB Credit Facility also imposes certain restrictions on our ability to dispose of assets, permit a change in control, merge or consolidate, make acquisitions, incur indebtedness, grant liens, make investments, make certain restricted payments, and enter into transactions with affiliates under certain circumstances. Certain of our assets, including accounts receivable, inventory, and equipment, are pledged as collateral for the SVB Credit Facility. Upon an event of default, outstanding obligations would be immediately due and payable. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default at a per annum rate of interest equal to 5.00% above the applicable interest rate. As of December 27, 2019, we were in compliance with the quarterly financial covenants, as amended, contained in the SVB Credit Facility. The $9.0 million borrowing was classified as a current liability as of December 27, 2019 and June 28, 2019, and repaid in January 2020 and July 2019, respectively.

On September 28, 2018, we entered into Amendment No. 1 (the “Amendment”) to the Third Amended and Restated Loan and Security Agreement with Silicon Valley Bank. Among other things, the Amendment provides for the definition of Quick Assets set forth in the Agreement to be modified to include up to the lesser of (a) 50% of unbilled accounts receivable or (b) $7.0 million.

In addition, we have a short-term line of credit for up to $0.3 million from a bank in New Zealand to support the operations of our subsidiary located there. This line of credit provides for up to $0.2 million in short-term advances at various interest rates, all of which was available as of December 27, 2019 and June 28, 2019. The line of credit also provides for the issuance of standby letters of credit and company credit cards, of which $0.1 million was outstanding as of December 27, 2019. This line of credit may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Note 8. Restructuring Activities

The following table summarizes our restructuring-related activities during the six months ended December 27, 2019:

	Severance and Benefits				Facilities and Other	Total
(In thousands)	Fiscal 2020 Plan	Fiscal 2018-2019 Plan	Fiscal 2016-2017 Plan	Fiscal 2013-2014 Plan	Fiscal 2015-2016 Plan	
Accrual balance, June 28, 2019	$ —	$ 1,023	$ 2	$ 64	$ 238	$ 1,327
Charges (recovery), net	1,280	(103)	—	—	—	1,177
Cash payments	(60)	(229)	(2)	—	—	(291)
Foreign exchange impact	—	—	—	—	(9)	(9)
Accrual balance, September 27, 2019	1,220	691	—	64	229	2,204
Charges, net	381	—	—	—	—	381
Cash payments	(385)	(280)	—	—	—	(665)
Accrual balance, December 27, 2019	$ 1,216	$ 411	$ —	$ 64	$ 229	$ 1,920

As of December 27, 2019, $1.7 million of the accrual balance was in short-term restructuring liabilities while $0.2 million was included in other long-term liabilities on our unaudited condensed consolidated balance sheets.

During the fourth quarter of fiscal 2019, our Board of Directors approved a restructuring plan (the “Fiscal 2020 Plan”) to primarily consolidate product development, right size our resources to support our international business and other support functions. Payments related to the accrued restructuring liability balance for this plan are expected to be fully paid in fiscal 2021.

We completed the restructuring activities under our fiscal 2018-2019 restructuring plan (the “Fiscal 2018-2019 Plan”) by the end of fiscal 2019. Payments related to the accrued restructuring liability balance for this plan are expected to be fully paid by the end of fiscal 2020.

For further information, see “Note 7. Restructuring Activities” in Part II, Item 8 of our 2019 Form 10-K.

Note 9. Equity

Stock Repurchase Program

In May 2018, our board of directors approved a repurchase program, which does not have an expiration date, for the repurchase of up to $7.5 million of our common stock.

The following table summarizes the repurchases of our common stock:

	Three Months Ended		Six Months Ended	
(In thousands, except share amounts)	**December 27, 2019**	**December 28, 2018**	**December 27, 2019**	**December 28, 2018**
Number of shares repurchased	46,087	68,006	101,539	91,585
Aggregate purchase price, including commissions	$ 653	$ 1,046	$ 1,401	$ 1,436

All repurchased shares were retired. As of December 27, 2019, $3.8 million remained available under our stock repurchase program.

Stock Incentive Programs

As of December 27, 2019, we had two stock incentive plans for our employees and nonemployee directors, the 2018 Incentive Plan and the 2007 Stock Equity Plan, as amended and restated effective November 13, 2015. During the three months ended December 27, 2019, we granted restricted stock units for the issuance of 21,172 shares of our common stock. During the six months ended December 27, 2019, we granted restricted stock units for the issuance of 84,202 shares of our common stock, performance restricted stock units for the issuance of 51,706 shares of our common stock and options to purchase 126,118 shares of our common stock.

Total compensation expense for share-based awards included in our unaudited condensed consolidated statements of operations was as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	**December 27, 2019**	**December 28, 2018**	**December 27, 2019**	**December 28, 2018**
By Expense Category:				
Cost of revenues	$ 52	$ 52	$ 96	$ 100
Research and development	32	45	59	81
Selling and administrative	317	405	653	757
Total share-based compensation expense	$ 401	$ 502	$ 808	$ 938
By Types of Award:				
Options	$ 153	$ 116	$ 263	$ 155
Restricted and performance stock awards and units	248	386	545	783
Total share-based compensation expense	$ 401	$ 502	$ 808	$ 938

As of December 27, 2019, there was approximately $1.3 million of total unrecognized compensation expense related to non-vested stock options granted which are expected to be recognized over a weighted-average period of 2.3 years. As of December 27, 2019, there was $2.1 million of total unrecognized compensation expense related to non-vested stock awards which are expected to be recognized over a weighted-average period of 2.2 years.

Note 10. Segment and Geographic Information

We operate in one reportable business segment: the design, manufacturing, and sale of a range of wireless networking products, solutions, and services. Our financial performance is regularly reviewed by our chief operating decision maker who is our chief executive officer.

We report revenue by region and country based on the location where our customers accept delivery of our products and services. Revenue by region for the three and six months ended December 27, 2019 and December 28, 2018 was as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	**December 27, 2019**	**December 28, 2018**	**December 27, 2019**	**December 28, 2018**
North America	$ 36,472	$ 37,316	$ 76,239	$ 65,079
Africa and the Middle East	8,856	13,832	19,449	27,979
Europe and Russia	2,418	3,233	5,825	6,945
Latin America and Asia Pacific	8,251	10,707	13,098	25,589
Total revenue	$ 55,997	$ 65,088	$ 114,611	$ 125,592

During the three months ended December 27, 2019, no customer accounted for over 10% of our total revenue. During the six months ended December 27, 2019, Motorola Solutions, Inc. accounted for 10% of our total revenue. During both the three and six months ended December 28, 2018, Mobile Telephone Networks Group (MTN Group) accounted for 12% of our total revenue. As of December 27, 2019, MTN Group accounted for 13% of our accounts receivable. As of June 28, 2019, MTN Group and Globe Telecom, Inc. (Globe) accounted for 10% and 11% of our accounts receivable, respectively. We have entered into separate and distinct contracts with Globe and MTN Group, as well as separate arrangements with their various subsidiaries. The loss of a significant portion of business from Globe and MTN Group, or any other significant customers, could adversely affect our unaudited condensed consolidated financial statements.

Note 11. Income Taxes

Our effective tax rate varies from the U.S. federal statutory rate of 21% due to results of foreign operations that are subject to income taxes at different statutory rates and certain jurisdictions where we cannot recognize tax benefits on current losses. During interim periods, we accrue tax expenses for jurisdictions that are anticipated to be profitable for fiscal 2020.

The determination of our income taxes for the six months ended December 27, 2019 and December 28, 2018 was based on our estimated annual effective tax rate adjusted for losses in certain jurisdictions for which no tax benefit can be recognized. Our tax expense for the six months ended December 27, 2019 was primarily due to tax expense related to profitable subsidiaries and a $0.6 million increase in our reserves for uncertain tax positions. The tax benefit for the six months ended December 28, 2018 was primarily due to tax expense related to profitable subsidiaries, net against the $1.6 million release of valuation allowance due to the potential foreign tax refund to be received from the Department of Federal Revenue of Brazil.

We continue to record a partial valuation allowance on our U.S. deferred tax assets which primarily represent future income tax benefits associated with our operating losses. Realization of our deferred tax assets is dependent on generating sufficient pre-tax book income in future periods. Although we believe it is more likely than not that future income will be sufficient to allow us to recover the value of a portion of our U.S. deferred tax assets, realization is not assured and future events could cause us to change our judgment. If future events cause us to conclude that it is not more likely than not that we will be able to recover more or less of the current anticipated portion of deferred tax assets, we would be required to either decrease or increase the valuation allowance on our deferred tax assets at that time, which would result in a charge to income tax expense (benefit) and a material increase or decrease in net income in the period in which we change our judgment. During the second quarter of fiscal 2020, we did not record any adjustment to valuation allowance on our U.S. deferred tax assets.

We entered into a tax sharing agreement with Harris Corporation (Harris) effective on January 26, 2007, the acquisition date of Stratex. The tax sharing agreement addresses, among other things, the settlement process associated with pre-merger tax liabilities and tax attributes that were attributable to the Microwave Communication Division when it was a division of Harris. There have been no settlement payments recorded since the acquisition date.

We have a number of open income tax audits covering various tax years, which vary from jurisdiction to jurisdiction. Our major tax jurisdictions where audits are pending include Singapore, Nigeria, and Saudi Arabia. The earliest years that are open and subject to potential audits are as follows: U.S. - 2003; Singapore - 2011; Nigeria - 2006: Saudi Arabia - 2010, and Ivory Coast - 2016.

We account for interest and penalties related to unrecognized tax benefits as part of our provision for federal, foreign and state income taxes. Such interest expense was not material for the three and six months ended December 27, 2019 and December 28, 2018.

Note 12. Commitments and Contingencies

Purchase Orders and Other Commitments

From time to time in the normal course of business, we may enter into purchasing agreements with our suppliers that require us to accept delivery of, and remit full payment for, finished products that we have ordered, finished products that we requested be held as safety stock, and work in process started on our behalf, in the event we cancel or terminate the purchasing agreement. Because these agreements do not specify fixed or minimum quantities, do not specify minimum or variable price provisions, and do not specify the approximate timing of the transaction, and we have no present intention to cancel or terminate any of these agreements, we currently do not believe that we have any future liability under these agreements. As of December 27, 2019, we had outstanding purchase obligations with our suppliers or contract manufacturers of $18.6 million. In addition, we had contractual obligations of approximately $2.1 million associated with software licenses as of December 27, 2019.

Financial Guarantees and Commercial Commitments

Guarantees issued by banks, insurance companies, or other financial institutions are contingent commitments issued to guarantee our performance under borrowing arrangements, such as bank overdraft facilities, tax and customs obligations, and similar transactions, or to ensure our performance under customer or vendor contracts. The terms of the guarantees are generally equal to the remaining term of the related debt or other obligations and are generally limited to two years or less. As of December 27, 2019, we had no guarantees applicable to our debt arrangements.

We have entered into commercial commitments in the normal course of business including surety bonds, standby letters of credit agreements, and other arrangements with financial institutions primarily relating to the guarantee of future performance on certain contracts to provide products and services to customers. As of December 27, 2019, we had commercial commitments of $61.2 million outstanding that were not recorded on our unaudited condensed consolidated balance sheets. We do not believe, based on historical experience and information currently available, that it is probable that any significant amounts will be required to be paid on the performance guarantees in the future.

Indemnifications

Under the terms of substantially all of our license agreements, we have agreed to defend and pay any final judgment against our customers arising from claims against such customers that our products infringe the intellectual property rights of a third party. As of December 27, 2019, we have not received any notice that any customer is subject to an infringement claim arising from the use of our products; we have not received any request to defend any customers from infringement claims arising from the use of our products; and we have not paid any final judgment on behalf of any customer related to an infringement claim arising from the use of our products. Because the outcome of infringement disputes is related to the specific facts of each case and given the lack of previous or current indemnification claims, we cannot estimate the maximum amount of potential future payments, if any, related to our indemnification provisions. As of December 27, 2019, we had not recorded any liabilities related to these indemnifications.

Legal Proceedings

We are subject from time to time to disputes with customers concerning our products and services. In May 2016, we received notification of a claim for approximately $1.0 million in damages from a customer in Austria alleging that certain of our products were defective. We are continuing to investigate this claim, and at this time an estimate of the reasonably possible loss or range of loss cannot be made. We believe that we have numerous contractual and legal defenses to these disputes, and we intend to dispute them vigorously.

In March 2016, an enforcement action by the Indian Department of Revenue, Ministry of Finance was brought against Aviat Networks (India) Private Limited (Aviat India) relating to the non-realization of intercompany receivables and non-payment of intercompany payables, which originated from 1999 to 2012, within the time frames dictated by the Indian regulations under the Foreign Exchange Management Act ("FEMA"). In November 2017, the Indian Department of Revenue, Ministry of Finance also initiated a similar action against Telsima Communications Private Limited (Telsima India) relating to the non-realization of intercompany receivables and non-payment of intercompany payables which originated from the period prior to our acquisition of Telsima India in February 2009. In September 2019, our directors of Aviat India appeared before the Ministry of Finance Enforcement Directorate. No settlement offers were discussed at the meeting and the matter is still ongoing with no subsequent hearing date currently scheduled. We have accrued an immaterial amount representing the estimated probable loss for which we would settle the matter. We currently cannot form an estimate of the range of loss in excess of our amounts already accrued. If the outcome of this matter is greater than the current immaterial amount accrued, we intend to dispute it vigorously.

From time to time, we may be involved in various other legal claims and litigation that arise in the normal course of our operations. We are aggressively defending all current litigation matters. Although there can be no assurances and the outcome of these matters is currently not determinable, we currently believe that none of these claims or proceedings are likely to have a material adverse effect on our financial position. We expect to defend each of these disputes vigorously. There are many uncertainties associated with any litigation and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. As a result, our business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from our estimates, if any.

We record accruals for our outstanding legal proceedings, investigations or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. We evaluate, at least on a quarterly basis, developments in legal proceedings, investigations or claims that could affect the amount of any accrual, as well as any developments that would result in a loss contingency to become both probable and reasonably estimable. We have not recorded any accrual for loss contingencies associated with such legal claims or litigation discussed above.

Contingent Liabilities

We record a loss contingency as a charge to operations when (i) it is probable that an asset has been impaired or a liability has been incurred at the date of the unaudited condensed consolidated financial statements; and (ii) the amount of the loss can be reasonably estimated. Disclosure in the Notes to the unaudited condensed consolidated financial statements is required for loss contingencies that do not meet both those conditions if there is a reasonable possibility that a loss may have been incurred. Gain contingencies are not recorded until realized. We expense all legal costs incurred to resolve regulatory, legal, and tax matters as incurred.

Periodically, we review the status of each significant matter to assess the potential financial exposure. If a potential loss is considered probable and the amount can be reasonably estimated, we reflect the estimated loss in our unaudited condensed consolidated statement of operations. Significant judgment is required to determine the probability that a liability has been incurred or an asset impaired and whether such loss is reasonably estimable. Further, estimates of this nature are highly subjective, and the final outcome of these matters could vary significantly from the amounts that have been included in our unaudited condensed consolidated financial statements. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise estimates accordingly. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q, including “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not materialize or prove correct, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including statements of, about, concerning or regarding: our plans, strategies and objectives for future operations, including with respect to growing our business and sustaining profitability; our restructuring efforts; our research and development efforts and new product releases and services; trends in revenue; drivers of our business and the markets in which we operate; future economic conditions, performance or outlook, and changes in our industry and the markets we serve; the outcome of contingencies; the value of our contract awards; beliefs or expectations; the sufficiency of our cash and our capital needs and expenditures; our intellectual property protection; our compliance with regulatory requirements and the associated expenses; expectations regarding litigation; our intention not to pay cash dividends; seasonality of our business; the impact of foreign exchange and inflation; taxes; and assumptions underlying any of the foregoing. Forward-looking statements may be identified by the use of forward-looking terminology, such as “anticipates,” “believes,” “expects,” “may,” “should,” “would,” “will,” “intends,” “plans,” “estimates,” “strategy,” “projects,” “targets,” “goals,” “seeing,” “delivering,” “continues,” “forecasts,” “future,” “predict,” “might,” “could,” “potential,” or the negative of these terms, and similar words or expressions.

These forward-looking statements are based on estimates reflecting the current beliefs of the senior management of the Company. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should therefore be considered in light of various important factors, including those set forth in this document. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, but are not limited to, the following:

- *continued price and margin erosion as a result of increased competition in the microwave transmission industry;*
- *the impact of the volume, timing, and customer, product, and geographic mix of our product orders;*
- *our ability to meet financial covenant requirements which could impact, among other things, our liquidity;*
- *the timing of our receipt of payment for products or services from our customers;*
- *our ability to meet projected new product development dates or anticipated cost reductions of new products;*
- *our suppliers' inability to perform and deliver on time as a result of their financial condition, component shortages, or other supply chain constraints;*
- *customer acceptance of new products;*
- *the ability of our subcontractors to timely perform;*
- *continued weakness in the global economy affecting customer spending;*
- *retention of our key personnel;*
- *our ability to manage and maintain key customer relationships;*
- *uncertain economic conditions in the telecommunications sector combined with operator and supplier consolidation;*
- *our failure to protect our intellectual property rights or defend against intellectual property infringement claims by others;*
- *the results of our restructuring efforts;*
- *the ability to preserve and use our net operating loss carryforwards;*
- *the effects of currency and interest rate risks;*
- *the conduct of unethical business practices in developing countries;*
- *the impact of political turmoil in countries where we have significant business; and*
- *our ability to implement our stock repurchase program or that it will enhance long-term stockholder value.*

Other factors besides those listed here also could adversely affect us. See “Item 1A. Risk Factors” in our fiscal 2019 Annual Report on Form 10-K filed with the SEC on August 27, 2019 for more information regarding factors that may cause our results to differ materially from those expressed or implied by the forward-looking statements contained in this Quarterly Report on Form 10-Q.

You should not place undue reliance on these forward-looking statements, which reflect our management’s opinions only as of the date of the filing of this Quarterly Report on Form 10-Q. Forward-looking statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), along with provisions of the Private Securities Litigation Reform Act of 1995, and we undertake no obligation, other than as imposed by law, to update any forward-looking statements to reflect further developments or information obtained after the date of filing of this Quarterly Report on Form 10-Q or, in the case of any document incorporated by reference, the date of that document.

Overview of Business; Operating Environment and Key Factors Impacting Fiscal 2020 and 2019 Results

The following Management’s Discussion and Analysis (MD&A) is intended to help the reader understand our results of operations and financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and the accompanying notes. In the discussion herein, our fiscal year ending July 3, 2020 is referred to as “fiscal 2020” or “2020” and our fiscal year ended June 28, 2019 is referred to as “fiscal 2019” or “2019.”

Overview

We anticipate our overall revenue in fiscal 2020 to be higher in North America, offset by lower revenue from our international regions. This expectation is based on actual order volumes in fiscal 2019 and our observation of customer spending patterns going into fiscal 2020. In the first six months of fiscal 2020, we added to the healthy backlog we had entering fiscal 2020 for our North America private network projects and we anticipate continuing our strong momentum across these verticals. We have made inroads into the U.S. rural broadband and wireless internet service provider areas and there is evidence now of investment to support 5G deployments with our U.S. service provider customers. Internationally, we took a more conservative view of our revenue opportunity based on a variety of factors that have led to an overall capital spending decline and increased competitive intensity, especially from vendors based in China. While there is an attractive pipeline of international revenue opportunity, it has less clarity on timing and we are maintaining our lower international expectations with respect to fiscal 2020.

Operations Review

The market for mobile backhaul continues to be our primary addressable market segment globally in fiscal 2020. In North America, we supported long-term evolution (“LTE”) deployments of our mobile operator customers, public safety network deployments for state and local governments, and private network implementations for utilities and other customers. In international markets, our business continued to rely on a combination of customers increasing their capacity to handle subscriber growth, the ongoing build-out of some large 3G deployments, and LTE deployments. Our position continues to be to support our customers for 5G and LTE readiness and ensure that our technology roadmap is well aligned with evolving market requirements. We continue to find that our strength in turnkey and after-sale support services is a differentiating factor that wins business for us and enables us to expand our business with existing customers in all markets. However, as disclosed above and in the “Risk Factors” section in Item 1A of our fiscal 2019 Annual Report on Form 10-K, a number of factors could prevent us from achieving our objectives, including ongoing pricing pressures attributable to competition and macroeconomic conditions in the geographic markets that we service.

Revenue

We manage our sales activities primarily on a geographic basis in North America and three international geographic regions: (1) Africa and the Middle East, (2) Europe and Russia, and (3) Latin America and Asia Pacific. Revenue by region for the three and six months ended December 27, 2019 and December 28, 2018 and the related changes were as follows:

	Three Months Ended				Six Months Ended			
(In thousands, except percentages)	**December 27, 2019**	**December 28, 2018**	**$ Change**	**% Change**	**December 27, 2019**	**December 28, 2018**	**$ Change**	**% Change**
North America	$ 36,472	$ 37,316	$ (844)	(2.3)%	$ 76,239	$ 65,079	$ 11,160	17.1 %
Africa and the Middle East	8,856	13,832	(4,976)	(36.0)%	19,449	27,979	(8,530)	(30.5)%
Europe and Russia	2,418	3,233	(815)	(25.2)%	5,825	6,945	(1,120)	(16.1)%
Latin America and Asia Pacific	8,251	10,707	(2,456)	(22.9)%	13,098	25,589	(12,491)	(48.8)%
Total revenue	$ 55,997	$ 65,088	$ (9,091)	(14.0)%	$ 114,611	$ 125,592	$ (10,981)	(8.7)%

Our revenue in North America decreased by $0.8 million, or 2.3%, during the second quarter of fiscal 2020 compared with the same quarter of fiscal 2019. Revenue in North America increased by $11.2 million, or 17.1%, during the first six months of fiscal 2020 compared with the same period of fiscal 2019. The increase in North America revenue during the first six months of fiscal 2020 was due to an increase in private network projects as well as an increase in mobile operator sales compared to fiscal 2019.

Our revenue in Africa and the Middle East decreased by $5.0 million, or 36.0%, for the second quarter of fiscal 2020 compared with the same quarter of fiscal 2019. Revenue in Africa and the Middle East decreased by $8.5 million, or 30.5%, during the first six months of fiscal 2020 compared with the same period of fiscal 2019. The decrease in revenue was primarily due to decreased sales to our large mobile operator customers in the region.

Revenue in Europe and Russia decreased by $0.8 million, or 25.2%, for the second quarter of fiscal 2020 compared with the same quarter of fiscal 2019. Revenue in Europe and Russia decreased by $1.1 million, or 16.1%, during the first six months of fiscal 2020 compared with the same period of fiscal 2019. The decrease was due to lower sales to mobile operator customers in the region.

Revenue in Latin America and Asia Pacific decreased by $2.5 million, or 22.9%, during the second quarter of fiscal 2020 compared with the same quarter of fiscal 2019. Revenue in Latin America and Asia Pacific decreased by $12.5 million, or 48.8%, during the first six months of fiscal 2020 compared with the same period of fiscal 2019. The decrease was from lower sales to mobile operator customers compared to fiscal 2019.

	Three Months Ended				Six Months Ended			
(In thousands, except percentages)	**December 27, 2019**	**December 28, 2018**	**$ Change**	**% Change**	**December 27, 2019**	**December 28, 2018**	**$ Change**	**% Change**
Product sales	$ 34,152	$ 41,956	$ (7,804)	(18.6)%	$ 70,746	$ 81,081	$ (10,335)	(12.7)%
Services	21,845	23,132	(1,287)	(5.6)%	43,865	44,511	(646)	(1.5)%
Total revenue	$ 55,997	$ 65,088	$ (9,091)	(14.0)%	$ 114,611	$ 125,592	$ (10,981)	(8.7)%

Our revenue from product sales decreased by $7.8 million, or 18.6%, for the second quarter of fiscal 2020 compared with the same quarter of fiscal 2019. Product sales decreased compared to the same quarter in fiscal 2020 in all reporting sectors. Our services revenue decreased by $1.3 million, or 5.6%, during the second quarter of fiscal 2020 compared with the same quarter of fiscal 2019. Lower international service sales were offset in part by increased service sales in North America relative to fiscal 2019.

Our revenue from product sales decreased by $10.3 million, or 12.7%, for the first six months of fiscal 2020 compared with the same period of fiscal 2019. Increased product sales in North America were offset by a larger volume decrease in international sectors compared to the same period in fiscal 2019. Our services revenue decreased by $0.6 million, or 1.5%, during the first six months of fiscal 2020 compared with the same period of fiscal 2019. Decreased sales in international sectors were offset in part by an increase in North America sales compared to the same period in fiscal 2019.

During the three and six months ended December 27, 2019, our product revenue was adversely impacted by a cyberattack at one of our contract manufacturing vendors, which constrained capacity by approximately three weeks and led to lower than expected results. However, the issue has been fully remediated.

Gross Margin

	Three Months Ended				Six Months Ended			
(In thousands, except percentages)	**December 27, 2019**	**December 28, 2018**	**$ Change**	**% Change**	**December 27, 2019**	**December 28, 2018**	**$ Change**	**% Change**
Revenue	$ 55,997	$ 65,088	$ (9,091)	(14.0)%	$ 114,611	$ 125,592	$ (10,981)	(8.7)%
Cost of revenue	37,678	42,598	(4,920)	(11.5)%	73,736	85,177	(11,441)	(13.4)%
Gross margin	$ 18,319	$ 22,490	$ (4,171)	(18.5)%	$ 40,875	$ 40,415	$ 460	1.1 %
% of revenue	32.7%	34.6%			35.7%	32.2%		
Product margin %	32.7%	37.7%			38.1%	34.7%		
Service margin %	32.7%	28.9%			31.7%	27.6%		

Gross margin for the second quarter of fiscal 2020 decreased by $4.2 million, or 18.5% compared with the same quarter of fiscal 2019. Our gross margin decreased from the prior-year quarter, primarily due to lower mix of product revenue and increased supply chain costs. Gross margin for the first six months of fiscal 2020 increased by $0.5 million, or 1.1%. For the first six months of fiscal 2020, gross margin improved over the same period in fiscal 2019 primarily due to a higher volume of business in North America and improved profit margin in that sector, offset in part by increased supply chain costs.

Product margin as a percentage of product revenue decreased in the second quarter of fiscal 2020 compared with the same quarter of fiscal 2019 primarily due to lower mix of product revenue and increased supply chain costs. Service margin as a percentage of service revenue increased in the second quarter of fiscal 2020 compared with the same period in fiscal 2019 due to higher margin rates for certain projects in our North America and international sectors.

Product margin and service margin as a percentage of product revenue improved in the first six months of fiscal 2020 compared with the same quarter of fiscal 2019 due to higher volume of business in North America and higher margin rates for certain projects, offset in part by increased supply chain costs.

Research and Development Expenses

(In thousands, except percentages)	Three Months Ended December 27, 2019	Three Months Ended December 28, 2018	$ Change	% Change	Six Months Ended December 27, 2019	Six Months Ended December 28, 2018	$ Change	% Change
Research and development	$ 4,978	$ 5,316	$ (338)	(6.4)%	$ 10,194	$ 10,253	$ (59)	(0.6)%
% of revenue	8.9%	8.2%			8.9%	8.2%		

Our research and development expenses decreased by $0.3 million, or 6.4%, in the second quarter of fiscal 2020 compared with the same quarter of fiscal 2019. The decrease was primarily due to timing of product development activities. Our research and development expenses were relatively flat for the first six months of fiscal 2020 compared to the first six months of fiscal 2019.

Selling and Administrative Expenses

(In thousands, except percentages)	Three Months Ended December 27, 2019	Three Months Ended December 28, 2018	$ Change	% Change	Six Months Ended December 27, 2019	Six Months Ended December 28, 2018	$ Change	% Change
Selling and administrative	$ 14,457	$ 14,291	$ 166	1.2%	$ 29,101	$ 27,997	$ 1,104	3.9%
% of revenue	25.8%	22.0%			25.4%	22.3%		

Our selling and administrative expenses increased by $0.2 million, or 1.2%, in the second quarter of fiscal 2020 compared with the same period in fiscal 2019. The increase was primarily due to higher variable compensation and other legal related costs. Our selling and administrative expenses increased by $1.1 million, or 3.9%, in the first six months of fiscal 2020 compared with the same period in fiscal 2019. The increase was primarily due to higher variable compensation and other legal related costs.

Restructuring Charges

(In thousands, except percentages)	Three Months Ended December 27, 2019	Three Months Ended December 28, 2018	$ Change	% Change	Six Months Ended December 27, 2019	Six Months Ended December 28, 2018	$ Change	% Change
Restructuring charges	$ 381	$ —	$ 381	—%	$ 1,558	$ 796	$ 762	95.7%

During the fourth quarter of fiscal 2019, our Board of Directors approved a restructuring plan (the "Fiscal 2020 Plan") to primarily consolidate product development, right size our resources to support our International business and other support functions. Payments related to the accrued restructuring liability balance for this plan are expected to be fully paid in fiscal 2021.

Interest Income and Interest Expense

(In thousands, except percentages)	Three Months Ended December 27, 2019	Three Months Ended December 28, 2018	$ Change	% Change	Six Months Ended December 27, 2019	Six Months Ended December 28, 2018	$ Change	% Change
Interest income	$ 120	$ 43	$ 77	179.1 %	$ 206	$ 94	$ 112	119.1 %
Interest expense	$ (1)	$ (76)	$ 75	(98.7)%	$ (4)	$ (81)	$ 77	(95.1)%

Interest income reflected interest earned on our cash equivalents which were comprised of money market funds and bank certificates of deposit.

Interest expense was primarily related to interest associated with borrowings under the SVB Credit Facility and discounts on customer letters of credit.

Income Taxes

(In thousands, except percentages)	Three Months Ended December 27, 2019	Three Months Ended December 28, 2018	$ Change	% Change	Six Months Ended December 27, 2019	Six Months Ended December 28, 2018	$ Change	% Change
(Loss) income before income taxes	$ (1,378)	$ 2,850	$ (4,228)	(148.4)%	$ 224	$ 1,382	$ (1,158)	(83.8)%
Provision for (benefit from) income taxes	$ 293	$ 540	$ (247)	(45.7)%	$ 1,841	$ (178)	$ 2,019	(1,134.3)%

We estimate our annual effective tax rate at the end of each quarterly period, and we record the tax effect of certain discrete items in the interim period in which they occur, including changes in judgment about uncertain tax positions and deferred tax valuation allowances.

The tax expense for the first six months of fiscal 2020 was primarily due to tax expense related to profitable subsidiaries and a $0.6 million increase in our reserves for uncertain tax positions. During the first quarter of fiscal 2019, we recorded a net discrete tax benefit of $1.6 million for the release of valuation allowance on a deferred tax asset recorded for $1.9 million of refundable withholding tax credit to be received from the Department of Federal Revenue of Brazil, less tax expense of $0.3 million from recognizing an ASC 740-10 reserve previously recorded as a reduction against the deferred tax for the withholding tax credit.

We continue to record a partial valuation allowance on our U.S. deferred tax assets which primarily represent future income tax benefits associated with our operating losses. Realization of our deferred tax assets is dependent on generating sufficient pre-tax book income in future periods. Although we believe it is more likely than not that future income will be sufficient to allow us to recover the value of a portion of our U.S. deferred tax assets, realization is not assured and future events could cause us to change our judgment. If future events cause us to conclude that it is not more likely than not that we will be able to recover more or less of the current anticipated portion of deferred tax assets, we would be required to either decrease or increase the valuation allowance on our deferred tax assets at that time, which would result in a charge to income tax expense (benefit) and a material increase or decrease in net income in the period in which we change our judgment. During the second quarter of fiscal 2020, we did not record any adjustment to valuation allowance on our U.S. deferred tax assets.

Liquidity, Capital Resources, and Financial Strategies

Sources of Cash

As of December 27, 2019, our total cash and cash equivalents were $38.1 million. Approximately $18.7 million, or 49.1%, was held in the United States. The remaining balance of $19.4 million, or 50.9%, was held by entities outside the United States. Of the amount of cash and cash equivalents held by our foreign subsidiaries at December 27, 2019, $18.7 million was held in jurisdictions where our undistributed earnings are indefinitely reinvested, and if repatriated, would be subject to foreign withholding taxes.

Operating Activities

Cash provided by or used in operating activities is presented as net (loss) income adjusted for non-cash items and changes in operating assets and liabilities. Net cash provided by operating activities was $10.8 million for the first six months of fiscal 2020, compared to cash used in operating activities of $0.6 million for the first six months of fiscal 2019 primarily related to a net change in deferred tax expense. The net contribution of non-cash items decreased cash by $0.6 million and net changes in operating assets and liabilities increased cash by $15.1 million for the first six months of fiscal 2020 as compared to the same period in fiscal 2019.

Changes in operating assets and liabilities resulted in a net increase of $15.1 million to cash for the first six months of fiscal 2020, compared to the same period in 2019. Accounts receivable and unbilled costs fluctuate from period to period, depending on the amount, timing of sales and billing activities and cash collections. The fluctuations in accounts payable and accrued expenses were primarily due to the timing of liabilities incurred and vendor payments. The change in inventories and in customer service inventories were primarily due to demand and our focus on improving our inventory management. The increase in customer advance payments and unearned revenue was due to the timing of payment from customers and revenue recognition. We used $1.0 million in cash during the first six months of fiscal 2020 on expenses related to restructuring liabilities.

Investing Activities

Net cash used in investing activities was $2.4 million and $3.2 million for the first six months of fiscal 2020 and 2019, respectively, which consisted of capital expenditures. During the remainder of fiscal year 2020, we expect to spend approximately $3.6 million for capital expenditures, primarily on equipment for development and manufacturing of new products and to support customer managed services.

Financing Activities

Financing cash flows consist primarily of proceeds and repayments of short-term debt, repurchase of stock and proceeds from sale of share of common stock through employee equity plans. Net cash used in financing activities was $2.1 million for the first six months of fiscal 2020, primarily due to $1.4 million for repurchases of our common stock and a $0.7 million payment for taxes related to the net settlement of equity awards.

As of December 27, 2019, our principal sources of liquidity consisted of $38.1 million in cash and cash equivalents; $14.5 million of available credit under our $25.0 million SVB Credit Facility, which expires on June 29, 2020; and future collections of receivables from customers. We regularly require letters of credit from certain customers, and, from time to time, these letters of credit are discounted without recourse shortly after shipment occurs in order to meet immediate liquidity requirements and to reduce our credit and sovereign risk. Historically, our primary sources of liquidity have been cash flows from operations and credit facilities.

We believe that our existing cash and cash equivalents, the available line of credit under the SVB Credit Facility, and future cash collections from customers will be sufficient to provide for our anticipated requirements for working capital and capital expenditures for at least the next 12 months. Our SVB Credit Facility expires on June 29, 2020. In addition, there can be no assurance that our business will generate cash flow from operations, we will be in compliance with the quarterly financial covenants contained in the SVB Credit Facility, or that we will have a sufficient borrowing base under such facility, or that anticipated operational improvements will be achieved. If we are not in compliance with the financial covenants or do not have sufficient eligible accounts receivable to support our borrowing base, the availability of our credit facility is not certain or may be diminished. Over the longer term, if we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations that may arise in the future, we may be required to sell assets, reduce capital expenditures, or obtain financing. If we need to obtain additional financing, we cannot be assured that it will be available on favorable terms, or at all. Our ability to make scheduled principal payments or pay interest on or refinance any future indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the microwave communications market and to general economic, political, financial, competitive, legislative, and regulatory factors beyond our control.

As of December 27, 2019, we were in compliance with the quarterly financial covenants, as amended, contained in the SVB Credit Facility. The $9.0 million borrowing was classified as a current liability as of December 27, 2019 and June 28, 2019 and repaid in January 2020 and July 2019, respectively.

In addition, we have an uncommitted short-term line of credit of $0.3 million from a bank in New Zealand to support the operations of our subsidiary located there. This line of credit provides for $0.2 million in short-term advances at various interest rates, all of which was available as of December 27, 2019 and June 28, 2019. The line of credit also provides for the issuance of standby letters of credit and company credit cards, of which $0.1 million was outstanding as of December 27, 2019. This facility may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Restructuring Payments

We had liabilities for restructuring activities totaling $1.9 million as of December 27, 2019, $1.7 million of which was classified as current liabilities and expected to be paid out in cash over the next 12 months. We expect to fund these future payments with available cash and cash provided by operations.

Contractual Obligations and Commercial Commitments

The amounts disclosed in our fiscal 2019 Annual Report on Form 10-K filed with the SEC on August 27, 2019 include our commercial commitments and contractual obligations. During the first six months of fiscal 2020, no material changes occurred in our contractual obligations to purchase goods and services and to make payments under operating leases or our contingent liabilities on outstanding letters of credit, guarantees, and other arrangements as disclosed in our fiscal 2019 Annual Report on Form 10-K. As of December 27, 2019, we had commercial commitments of $61.2 million outstanding that were not recorded on our unaudited condensed consolidated balance sheets. Please refer to “Note 12 Commitments and Contingencies” of the Notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Critical Accounting Estimates

For information about our critical accounting estimates, see the “Critical Accounting Estimates” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our fiscal 2019 Annual Report on Form 10-K other than for the impact of adopting new lease accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of doing business, we are exposed to the risks associated with foreign currency exchange rates and changes in interest rates. We employ established policies and procedures governing the use of financial instruments to manage our exposure to such risks.

Exchange Rate Risk

We conduct business globally in numerous currencies and are therefore exposed to foreign currency risks. We use derivative instruments to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. We do not hold or issue derivatives for trading purposes or make speculative investments in foreign currencies.

We use foreign exchange forward contracts to hedge forecasted foreign currency transactions relating to forecasted sales and purchase transactions. Beginning the fourth quarter of fiscal 2015, we no longer prepared contemporaneous documentation of hedges for the new foreign exchange forward contracts we entered. As a result, the foreign exchange hedges no longer qualified as cash flow hedges. The changes in fair value related to the hedges were recorded in income or expenses line items on our statements of operations.

We also enter into foreign exchange forward contracts to mitigate the change in fair value of specific non-functional currency assets and liabilities on the balance sheet. All balance sheet hedges are marked to market through earnings every period. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities.

As of December 27, 2019, we had no foreign currency forward contracts outstanding. Net foreign exchange income (loss), net recorded in our unaudited condensed consolidated statements of operations during the three and six months ended December 27, 2019 and December 28, 2018 was as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	**December 27, 2019**	**December 28, 2018**	**December 27, 2019**	**December 28, 2018**
Amount included in costs of revenues	$ 272	$ (48)	$ 56	$ 171

Certain of our international business are transacted in non-U.S. dollar currency. As discussed above, we utilize foreign currency hedging instruments to minimize the currency risk of international transactions. The impact of translating the assets and liabilities of foreign operations to U.S. dollars for the first six months of fiscal 2020 was $0.1 million and was included as a component of stockholders’ equity. As of December 27, 2019 and June 28, 2019, the cumulative translation adjustment decreased our equity by $12.8 million and $12.7 million, respectively.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents and borrowings under our credit facility.

Exposure on Cash Equivalents

We had $38.1 million in total cash and cash equivalents as of December 27, 2019. Cash equivalents totaled $22.7 million as of December 27, 2019 and were comprised of money market funds and bank certificates of deposit. Cash equivalents investments have been recorded at fair value on our balance sheet.

Our cash equivalents earn interest at fixed rates; therefore, changes in interest rates will not generate a gain or loss on these investments unless they are sold prior to maturity. The weighted-average days to maturity for cash equivalents held as of December 27, 2019 was 26.5 days, and these investments had an average yield of approximately 6.38% per annum. A 10% change in interest rates on our cash equivalents is not expected to have a material impact on our financial position, results of operations, or cash flows.

Exposure on Borrowings

Our borrowings outstanding under the SVB Credit Facility incurred interest at the prime rate plus a spread of 0.50% to 1.50% with such spread determined based on our adjusted quick ratio. During the first six months of fiscal 2020, our weighted-average interest rate was 5.46%, and the interest expense on these borrowings was insignificant.

A 10% change in interest rates on the current borrowings or on future borrowings is not expected to have a material impact on our financial position, results of operations, or cash flows since interest on our borrowings is not material to our overall financial position.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation, with participation of our President and Chief Executive Officer ("CEO"), and Chief Operating Officer and Principal Financial Officer ("PFO"), as of the end of the period covered by this report, our CEO and PFO has concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 27, 2019, are effective to provide reasonable assurance that the information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and is accumulated and communicated to management, including our CEO and PFO, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

There were no changes to our internal controls over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) that occurred during the quarter ended December 27, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and PFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Legal Proceedings under "Note 12 Commitments and Contingencies" of the Notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Investors should carefully review and consider the information regarding certain factors which could materially affect our business, operating results, cash flows, and financial condition set forth under Item 1A, Risk Factors, in our fiscal 2019 Annual Report on Form 10-K filed with the SEC on August 27, 2019.

We do not believe that there have been any other material additions or changes to the risk factors previously disclosed in our fiscal 2019 Annual Report on Form 10-K, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Following is a summary of stock repurchases for the three months ended December 27, 2019:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Repurchased Under the Program [1] (in thousands)
September 28, 2019 through October 25, 2019	17,785	$ 14.06	17,785	$ 4,187
October 26, 2019 through November 22, 2019	15,099	$ 14.17	15,099	$ 3,973
November 23, 2019 through December 27, 2019	13,203	$ 14.26	13,203	$ 3,786
Total	46,087			

[1] Stock Repurchase Programs

In May 2018, our board of directors approved a repurchase program, which does not have an expiration date, for the repurchase of up to $7.5 million of our common stock. During the three months ended December 27, 2019, we repurchased $0.7 million of our common stock in the open market. As of December 27, 2019, $3.8 million remained available under our stock repurchase program.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The following exhibits are filed herewith or incorporated by reference to exhibits previously filed with the SEC:

Exhibit Number	Descriptions
3.1	Amended and Restated Certificate of Incorporation of Aviat Networks, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Current Report on Form 10-Q filed with the SEC on February 10, 2017, File No. 001-33278)
3.2	Amended and Restated Bylaws of Aviat Networks, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the SEC on October 2, 2015, File No. 001-33278)
3.3	Amendment of the Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on September 20, 2019, File No. 001-33278)
4.1	Tax Benefit Preservation Plan, dated as of September 6, 2016, by and between Aviat Networks, Inc. and Computershare Inc., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on September 7, 2016, File No. 011-33278)
4.2	Aviat Networks, Inc. 2018 Incentive Plan (incorporated by reference to Appendix A to the Registrant's Proxy Statement on Schedule 14A filed with the SEC on February 12, 2018, File No. 001-33278)
10.1	Employment Agreement, dated January 2, 2020, between Aviat Networks, Inc. and Peter Smith (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 2, 2020, File No. 001-33278)
31.1	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Operating Officer and Principal Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer and Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVIAT NETWORKS, INC.
(Registrant)

Date: February 6, 2020

By: /s/ Walter Stanley Gallagher, Jr.
Walter Stanley Gallagher, Jr.
Chief Operating Officer and Principal Financial Officer

By: /s/ Eric Chang
Eric Chang
Senior Vice President, Corporate Controller and Principal Accounting Officer

EXHIBIT INDEX

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Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Peter Smith., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended December 27, 2019, of Aviat Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2020

/s/ Peter Smith

Name:	Peter Smith
Title:	President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Walter Stanley Gallagher, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended December 27, 2019, of Aviat Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2020

/s/ Walter Stanley Gallagher, Jr.

Name:	Walter Stanley Gallagher, Jr.
Title:	Chief Operating Officer and Principal Financial Officer

Exhibit 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER OF AVIAT NETWORKS, INC.
PURSUANT TO TITLE 18 OF THE UNITED STATES CODE SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q of Aviat Networks, Inc. (“Aviat Networks”) for the fiscal quarter ended December 27, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Peter Smith, President and Chief Executive Office of Aviat Networks, and Walter Stanley Gallagher, Jr., Chief Operating Officer and Principal Financial Officer of Aviat Networks, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. §1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Aviat Networks as of the dates and for the periods expressed in the Report.

Date: February 6, 2020

/s/ Peter Smith
Name: Peter Smith
Title: President and Chief Executive Officer

Date: February 6, 2020

/s/ Walter Stanley Gallagher, Jr.
Name: Walter Stanley Gallagher, Jr.
Title: Chief Operating Officer and Principal Financial Officer