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

Form 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2020

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 Drive, Suite C100A, Austin, Texas	**78728**
(Address of principal executive offices)	**(Zip Code)**

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

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

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 ☒ 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 ☒ 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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 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 ☐ No ☒

The number of shares outstanding of the registrant’s Common Stock as of October 30, 2020 was 5,461,438.

AVIAT NETWORKS, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Quarterly Period Ended October 2, 2020

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except share and par value amounts)	October 2, 2020	July 3, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 36,226	$ 41,618
Accounts receivable, net	45,027	44,661
Unbilled receivables	31,295	28,085
Inventories	14,356	13,997
Customer service inventories	1,303	1,234
Other current assets	9,751	10,355
Total current assets	137,958	139,950
Property, plant and equipment, net	16,562	16,911
Deferred income taxes	12,548	12,799
Right of use assets	2,912	3,474
Other assets	6,793	6,667
TOTAL ASSETS	$ 176,773	$ 179,801
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 31,720	$ 31,995
Accrued expenses	24,262	26,920
Short-term lease liabilities	1,027	1,445
Advance payments and unearned revenue	25,233	21,872
Short-term debt	—	9,000
Restructuring liabilities	1,835	2,738
Total current liabilities	84,077	93,970
Unearned revenue	8,182	8,142
Long-term lease liabilities	2,147	2,303
Other long-term liabilities	316	401
Reserve for uncertain tax positions	5,644	5,759
Deferred income taxes	510	545
Total liabilities	100,876	111,120
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, 5,443,362 shares issued and outstanding at October 2, 2020; 5,400,487 shares issued and outstanding at July 3, 2020	54	54
Additional paid-in-capital	815,203	814,337
Accumulated deficit	(724,805)	(730,741)
Accumulated other comprehensive loss	(14,555)	(14,969)
Total equity	75,897	68,681
TOTAL LIABILITIES AND EQUITY	$ 176,773	$ 179,801

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 October 2, 2020	Three Months Ended September 27, 2019
Revenues:		
Revenue from product sales	$ 44,464	$ 36,594
Revenue from services	21,826	22,020
Total revenues	66,290	58,614
Cost of revenues:		
Cost of product sales	27,909	20,822
Cost of services	14,132	15,236
Total cost of revenues	42,041	36,058
Gross margin	24,249	22,556
Operating expenses:		
Research and development expenses	4,847	5,216
Selling and administrative expenses	12,837	14,644
Restructuring charges	—	1,177
Total operating expenses	17,684	21,037
Operating income	6,565	1,519
Interest income	36	86
Interest expense	(1)	(3)
Income before income taxes	6,600	1,602
Provision for income taxes	664	1,548
Net income	$ 5,936	$ 54
Net income per share of common stock outstanding:		
Basic	$ 1.10	$ 0.01
Diluted	$ 1.07	$ 0.01
Weighted-average shares outstanding:		
Basic	5,411	5,347
Diluted	5,546	5,530

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended	
(In thousands)	**October 2, 2020**	**September 27, 2019**
Net income	$ 5,936	$ 54
Other comprehensive income (loss):		
Net change in cumulative translation adjustments	414	(513)
Other comprehensive income (loss)	414	(513)
Comprehensive income (loss)	$ 6,350	$ (459)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Three Months Ended October 2, 2020	Three Months Ended September 27, 2019
Operating Activities		
Net income	$ 5,936	$ 54
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	1,254	1,038
Provision for (recovery from) uncollectible receivables	2	(35)
Share-based compensation	571	407
Deferred tax assets, net	216	(634)
Charges for inventory and customer service inventory write-downs	185	337
Loss on disposition of property, plant and equipment, net	6	3
Noncash lease expense	562	1,194
Changes in operating assets and liabilities:		
Accounts receivable	(294)	8,570
Unbilled receivables	(3,185)	(2,594)
Inventories	(444)	(2,665)
Customer service inventories	(201)	(326)
Accounts payable	(135)	(3,779)
Accrued expenses	(2,406)	540
Advance payments and unearned revenue	3,350	3,152
Income taxes payable or receivable	101	1,803
Other assets and liabilities	(703)	(125)
Change in lease liabilities	(574)	(1,291)
Net cash provided by operating activities	4,241	5,649
Investing Activities		
Payments for acquisition of property, plant and equipment	(1,018)	(1,302)
Net cash used in investing activities	(1,018)	(1,302)
Financing Activities		
Proceeds from borrowings	—	9,000
Repayments of borrowings	(9,000)	(9,000)
Payments for repurchase of common stock	—	(748)
Payments for taxes related to net settlement of equity awards	(128)	(746)
Proceeds from issuance of common stock under employee stock plans	423	4
Net cash used in financing activities	(8,705)	(1,490)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	89	(318)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(5,393)	2,539
Cash, cash equivalents, and restricted cash, beginning of period	41,872	32,201
Cash, cash equivalents, and restricted cash, end of period	$ 36,479	$ 34,740

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended October 2, 2020					
	Common Stock					
(In thousands, except share amounts)	**Shares**	**$ Amount**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Total Equity**
Balance as of July 3, 2020	**5,400,487**	**$ 54**	**$ 814,337**	**$ (730,741)**	**$ (14,969)**	**$ 68,681**
Net income	—	—	—	5,936	—	5,936
Other comprehensive income, net of tax	—	—	—	—	414	414
Issuance of common stock under employee stock plans	48,491	—	423	—	—	423
Shares withheld for taxes related to vesting of equity awards	(5,616)	—	(128)	—	—	(128)
Share-based compensation	—	—	571	—	—	571
Balance as of October 2, 2020	**5,443,362**	**$ 54**	**$ 815,203**	**$ (724,805)**	**$ (14,555)**	**$ 75,897**

	Three Months Ended September 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 June 28, 2019	**5,359,695**	**$ 54**	**$ 815,196**	**$ (730,998)**	**$ (12,736)**	**$ 71,516**
Net income	—	—	—	54	—	54
Other comprehensive loss, net of tax	—	—	—	—	(513)	(513)
Issuance of common stock under employee stock plans	192,812	2	2	—	—	4
Shares withheld for taxes related to vesting of equity awards	(52,384)	(1)	(745)	—	—	(746)
Stock repurchase	(55,452)	(1)	(747)	—	—	(748)
Share-based compensation	—	—	407	—	—	407
Balance as of September 27, 2019	**5,444,671**	**$ 54**	**$ 814,113**	**$ (730,944)**	**$ (13,249)**	**$ 69,974**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AVIAT NETWORKS, INC.

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. 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, 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, and we have made estimates, assumptions and judgments affecting the amounts reported in our unaudited condensed consolidated financial statements and the accompanying notes, as discussed in greater detail below. 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 months ended October 2, 2020 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 the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended July 3, 2020.

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 three months ended October 2, 2020 and September 27, 2019 both consisted of 13 weeks. Fiscal year 2021 will be comprised of 52 weeks and will end on July 2, 2021. Fiscal year 2020 was comprised of 53 weeks and ended 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. The actual results that we experience may differ materially from our estimates.

Summary of Significant Accounting Policies

There have been no material changes in our significant accounting policies as of and for the three months ended October 2, 2020, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended July 3, 2020.

Accounting Standards Adopted

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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 became effective for us in our first quarter of fiscal 2021. We adopted this guidance during the first quarter of fiscal 2021. The adoption had no material impact 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. We adopted this update during the first quarter of fiscal 2021. The adoption had no material impact on our unaudited condensed consolidated financial statements.

Accounting Standards Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. This guidance provides optional guidance related to reference rate reform, which provides practical expedients for contract modifications and certain hedging relationships associated with the transition from reference rates that are expected to be discontinued. This guidance is applicable for our borrowing instruments, which use LIBOR as a reference rate, and was effective March 12, 2020 through December 31, 2022. We are currently evaluating the potential impact ASU 2020-04 will have on our unaudited condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*. This guidance simplifies the accounting for income taxes by removing certain exceptions to the general principles and also simplifies areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws and rate changes. ASU 2019-12 will be effective for us in our first quarter of fiscal 2022. We are currently evaluating the potential impact that adopting ASU 2019-12 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 adopting Topic 326 will have on our unaudited condensed consolidated financial statements.

Note 2. 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)	October 2, 2020	July 3, 2020
Cash and cash equivalents	$ 36,226	$ 41,618
Restricted cash included in other assets	253	254
Total cash, cash equivalents, and restricted cash in the Statement of Cash Flows	$ 36,479	$ 41,872

Accounts Receivable, net

Our net accounts receivable are summarized below:

(In thousands)	October 2, 2020	July 3, 2020
Accounts receivable	$ 47,041	$ 46,502
Less: Allowances for collection losses	(2,014)	(1,841)
Total accounts receivable, net	$ 45,027	$ 44,661

Inventories

Our inventories are summarized below:

(In thousands)	October 2, 2020	July 3, 2020
Finished products	$ 8,686	$ 9,055
Raw materials and supplies	5,670	4,942
Total inventories	$ 14,356	$ 13,997
Consigned inventories included within raw materials and supplies	$ 3,056	$ 1,324

We currently rely on a few vendors for substantially all of our inventory purchases.

We record charges to adjust our inventory and customer service inventory due to excess and obsolete inventory resulting from lower sales forecasts, product transitioning, or discontinuance. The charges during the three months ended October 2, 2020 and September 27, 2019 were classified in cost of product sales as follows:

	Three Months Ended	
(In thousands)	October 2, 2020	September 27, 2019
Excess and obsolete inventory charges	$ 63	$ 146
Customer service inventory write-downs	122	191
Total inventory charges	$ 185	$ 337

Property, Plant and Equipment, net

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

(In thousands)	October 2, 2020	July 3, 2020
Land	$ 710	$ 710
Buildings and leasehold improvements	11,742	11,737
Software	21,205	17,887
Machinery and equipment	50,108	52,293
Total property, plant and equipment, gross	83,765	82,627
Less: Accumulated depreciation and amortization	(67,203)	(65,716)
Total property, plant and equipment, net	$ 16,562	$ 16,911

Included in the total plant, property and equipment above were $0.7 million and $3.5 million of assets in progress which have not been placed in service as of October 2, 2020 and July 3, 2020, 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	
(In thousands)	**October 2, 2020**	**September 27, 2019**
Depreciation and amortization	$ 1,254	$ 1,038

Accrued Expenses

Our accrued expenses are summarized below:

(In thousands)	**October 2, 2020**	**July 3, 2020**
Accrued compensation and benefits	$ 9,539	$ 11,814
Accrued agent commissions	2,529	2,356
Accrued warranties	3,107	3,196
Other	9,087	9,554
Total accrued expenses	$ 24,262	$ 26,920

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	
(In thousands)	**October 2, 2020**	**September 27, 2019**
Balance as of the beginning of the period	$ 3,196	$ 3,323
Warranty provision recorded during the period	284	504
Consumption during the period	(373)	(415)
Balance as of the end of the period	$ 3,107	$ 3,412

Advance Payments and Unearned Revenue

Our advance payments and unearned revenue are summarized below:

(In thousands)	**October 2, 2020**	**July 3, 2020**
Advance payments	$ 2,812	$ 2,529
Unearned revenue	22,421	19,343
Total advance payments and unearned revenue	$ 25,233	$ 21,872

Excluded from the balances above are $8.2 million and $8.1 million in long-term unearned revenue as of October 2, 2020 and July 3, 2020, respectively.

Note 3. 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 October 2, 2020 and July 3, 2020 were as follows:

	October 2, 2020		July 3, 2020		
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**	**Valuation Inputs**
Assets:					
Cash and cash equivalents:					
Money market funds	$ 18,920	$ 18,920	$ 18,189	$ 18,189	Level 1
Bank certificates of deposit	$ 2,538	$ 2,538	$ 3,250	$ 3,250	Level 2
Liabilities:					
Other accrued expenses:					
Foreign exchange forward contracts	$ —	$ —	$ 14	$ 14	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 October 2, 2020 and July 3, 2020, 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.

As of October 2, 2020 and July 3, 2020, 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 three months of fiscal 2021 and 2020, we had no transfers between levels of the fair value hierarchy of our assets or liabilities measured at fair value.

Note 4. Leases

The Company has 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.

We determine if an arrangement contains a lease at inception. These operating leases are included in "Right of use assets" (“ROU”) on our unaudited condensed consolidated balance sheets and represent our right to use the underlying asset for the lease term. Our obligations to make lease payments are included in "Short-term lease liabilities" and "Long-term lease liabilities" on our unaudited condensed consolidated balance sheets. We did not enter into any finance leases during the three months ended October 2, 2020.

The following summarizes our lease costs (in thousands):

	Three Months Ended	
	October 2, 2020	September 27, 2019
	(In thousands)	
Operating lease costs	$ 313	$ 320
Short-term lease costs	458	484
Variable lease costs	68	63
Total lease costs	$ 839	$ 867

The following summarizes our lease term and discount rate for three months ended October 2, 2020:

Weighted average remaining lease term	7.3 years
Weighted average discount rate	6.9 %

As of October 2, 2020, 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 2021	$ 875
2022	623
2023	357
2024	230
2025	236
Thereafter	1,952
Total lease payments	4,273
Less: interest	(1,099)
Present value of lease liabilities	$ 3,174

Note 5. Credit Facility and Debt

On May 4, 2020, we entered into Amendment No. 3 to Third Amended and Restated Loan and Security Agreement with Silicon Valley Bank (the “SVB Credit Facility”) which extended the expiration date to June 28, 2021. 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 October 2, 2020, available credit under the SVB Credit Facility was $23.5 million, reflecting the lower available limit of $25.0 million less outstanding letters of credit of $1.5 million. As of July 3, 2020, our outstanding debt balance under the SVB Credit Facility, classified as a current liability, was $9.0 million, and the interest rate was 3.75%. We repaid the outstanding debt balance during the quarter ended October 2, 2020.

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 three months of fiscal 2021, the weighted-average interest rate on our outstanding loan was 3.75%.

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 October 2, 2020, we were in compliance with the quarterly financial covenants contained in the SVB Credit Facility, as amended.

We also obtained an uncommitted short-term line of credit $0.3 million from a bank in New Zealand to support the operations of our New Zealand subsidiary. 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 October 2, 2020 and July 3, 2020. 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 October 2, 2020 and July 3, 2020. This line of credit may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Note 6. Revenue Recognition

Contract Balances, Performance Obligations, and Backlog

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

	October 2, 2020	July 3, 2020
Contract Assets		
Accounts receivable, net	$ 45,027	$ 44,661
Unbilled receivables	31,295	28,085
Capitalized commissions	1,328	1,157
Contract Liabilities		
Advance payments and unearned revenue	25,233	21,872
Unearned revenue, long-term	8,182	8,142

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 October 2, 2020, we had $33.4 million in advance payments and unearned revenue and long-term unearned revenue, of which approximately 68% is expected to be recognized as revenue in the remainder of fiscal 2021 and the balance thereafter. During the three months ended October 2, 2020 we recognized approximately $11.4 million 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 (or partially unsatisfied) performance obligations was approximately $75.4 million at October 2, 2020. Of this amount, we expect to recognize approximately 60% as revenue during the next 12 months, with the remaining amount to be recognized as revenue within two to five years.

Note 7. 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 months ended October 2, 2020 and September 27, 2019 was as follows:

	Three Months Ended	
(In thousands)	**October 2, 2020**	**September 27, 2019**
North America	$ 45,499	$ 39,767
Africa and the Middle East	10,571	10,593
Europe and Russia	2,262	3,407
Latin America and Asia Pacific	7,958	4,847
Total revenue	$ 66,290	$ 58,614

The loss of a significant portion of business from any significant customers could adversely affect our unaudited condensed consolidated financial statements.

Customers accounting for 10% or more of our total revenue was as follows:

	Three Months Ended	
	October 2, 2020	**September 27, 2019**
Mobile Telephone Networks Group (MTN Group)	*	13 %

- Less than 10%

Customers accounting for 10% or more of our accounts receivable was as follows:

	October 2, 2020	**July 3, 2020**
MTN Group	12 %	21 %

Note 8. Equity

Stock Repurchase Program

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

All repurchased shares were retired. As of October 2, 2020, $3.4 million remained available under our stock repurchase program. The repurchase program has been suspended temporarily since February 2020. Therefore, during the first three months of fiscal 2021, we did not repurchase any shares of our common stock in the open market.

Stock Incentive Programs

At October 2, 2020, we had one stock incentive plan for our employees and non-employee directors, the 2018 Incentive Plan (the “2018 Plan”). The 2018 Plan was approved by the stockholders at the fiscal year 2017 Annual Stockholders’ Meeting and it added 500,000 shares to the equity pool of shares available to grant to employees and non-employee directors. The 2018 Plan also provides for the issuance of share-based awards in the form of stock options, stock appreciation rights, restricted stock awards and units, and performance share awards and units.

Under the 2018 Plan, option exercise prices are equal to the fair market value of our common stock on the date the options are granted using our closing stock price. After vesting, options generally may be exercised within seven years after the date of grant.

Restricted stock units are not transferable until vested and the restrictions lapse upon the achievement of continued employment or service over a specified time period. Restricted stock units issued to employees generally vest three years from the date of grant (three-year cliff or annually over three years). Restricted stock units issued to non-executive board members annually generally vest on the day before the annual stockholders' meeting.

Vesting of performance share awards and units is subject to the achievement of predetermined financial performance criteria and continued employment through the end of the applicable period. Market-based stock units vest upon meeting certain predetermined share price performance criteria and continued employment through the end of the applicable period.

During the three months ended October 2, 2020, we granted 37,506 restricted stock units, 35,565 performance restricted stock units and 111,811 stock options to purchase 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	
(In thousands)	**October 2, 2020**	**September 27, 2019**
By Expense Category:		
Cost of revenues	$ 72	$ 44
Research and development	40	27
Selling and administrative	459	336
Total share-based compensation expense	$ 571	$ 407
By Types of Award:		
Options	$ 167	$ 110
Restricted and performance stock awards and units	404	297
Total share-based compensation expense	$ 571	$ 407

As of October 2, 2020, there was approximately $1.5 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 October 2, 2020, there was $3.1 million of total unrecognized compensation expense related to non-vested stock awards which are expected to be recognized over a weighted-average period of 2.1 years.

On September 6, 2016, our Board of Directors authorized and declared a dividend distribution of one right (a "Right") for each outstanding share of our common stock, par value $0.01 per share (the "Common Shares"), to our stockholders of record as of the close of business on September 16, 2016 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Participating Preferred Stock, par value $0.01 per share (the "Preferred Shares"), of the Company at an exercise price of $35.00 (the "Exercise Price") per one one-thousandth of a Preferred Share, subject to adjustment. Until the rights become exercisable, they will not be evidenced by separate certificates and will trade automatically with shares of the Company's common stock. The Rights have a de minimis fair value. The complete terms of the Rights are set forth in a Tax Benefit Preservation Plan (the "Plan"), dated as of September 6, 2016, between the Company and Computershare Inc., as rights agent. By adopting the Plan, we are helping to preserve the value of certain deferred tax benefits, including those generated by net operating losses (collectively, the "Tax Benefits"), which could be lost in the event of an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended. The Plan reduces the likelihood that changes in our investor base have the unintended effect of limiting our use of the Tax Benefits. The Plan expired on September 6, 2019. On March 3, 2020, our Board of Directors reauthorized the Plan at the same term with a Record Date of March 13, 2020. On August 27, 2020, we entered into the Amended and Restated Tax Benefit Preservation Plan (the "Amended and Restated Plan") with Computershare Inc. as Rights Agent.

The Amended and Restated Plan, reauthorized by our Board of Directors on March 3, 2020, will be subject to our shareholders approval at our upcoming Annual Shareholders' Meeting to be held on November 11, 2020.

Note 9. Restructuring Activities

The following table summarizes our restructuring-related activities during the three months ended October 2, 2020:

(In thousands)	Severance and Benefits					Facilities and Other	Total
	Q4 2020 Plan	Q3 2020 Plan	Fiscal 2020	Fiscal 2018-2019 Plan	Prior Years' Plan	Fiscal 2015-2016 Plan	
Accrual balance, July 3, 2020	$ 1,557	$ 431	$ 360	$ 90	$ 64	$ 236	$ 2,738
Cash payments	(345)	(170)	(269)	(90)	(39)	—	(913)
Foreign exchange impact	—	—	—	—	—	10	10
Accrual balance, October 2, 2020	$ 1,212	$ 261	$ 91	$ —	$ 25	$ 246	$ 1,835

As of October 2, 2020, the accrual balance of $1.8 million was in short-term restructuring liabilities on our unaudited condensed consolidated balance sheets.

Q4 2020 Plan

During the fourth quarter of fiscal 2020, our Board of Directors approved a restructuring plan (the "Q4 2020 Plan") in order to continue to reduce our operating costs and improve profitability to optimize our business model and increase efficiencies. The Q4 2020 Plan is being implemented starting with our fourth fiscal quarter of 2020 through the second fiscal quarter of 2021. Payments related to the accrued restructuring liability balance for this plan are expected to be fully paid in fiscal 2021.

Q3 2020 Plan

During the third quarter of fiscal 2020, our Board of Directors approved a restructuring plan (the "Q3 2020 Plan") in order to reduce our operating costs and improve profitability to optimize our business model and increase efficiencies. Payments related to the accrued restructuring liability balance for this plan are expected to be fully paid in fiscal 2021.

Fiscal 2020 Plan

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.

Fiscal 2018-2019 Plan

During the fourth quarter of fiscal 2018, our Board of Directors approved a restructuring plan (the "Fiscal 2018-2019 Plan") to consolidate back-office support functions and align resources by geography to lower our expense structure. We completed the restructuring activities under the Fiscal 2018-2019 Plan at the end of fiscal 2019. Payments related to the accrued restructuring liability balance for this plan are expected to be fully paid in fiscal 2021.

Fiscal 2015-2016 Plan

In January 2018, we reached a settlement with certain foreign government for grant liabilities which allowed us to reduce our estimated payments relating to prior years' restructuring plan by $0.3 million. During the third quarter of fiscal 2015, with the intent to bring our operational cost structure in line with the changing dynamics of the microwave radio and telecommunications markets, we initiated a restructuring plan (the "Fiscal 2015-2016 Plan") to lower fixed overhead costs and operating expenses and to preserve cash flow. Activities under the Fiscal 2015-2016 Plan primarily included reductions in workforce across the Company, but primarily in operations outside the United States. We completed the restructuring activities under the Fiscal 2015-2016 Plan as of July 1, 2016. Payments related to the accrued restructuring liability balance for this plan are expected to be paid in fiscal 2021.

For further information, see “Note 7. Restructuring Activities” in Part II, Item 8 of our 2020 Form 10-K.

Note 10. Income Taxes

Our effective tax rate varies from the U.S. federal statutory rate of 21% primarily due to results of foreign operations that are subject to income taxes at different statutory rates, certain jurisdictions where we cannot recognize tax benefits on current losses, and partial valuation allowance against US federal and state deferred tax assets. During interim periods, we accrue tax expenses for jurisdictions that are anticipated to be profitable for fiscal 2021.

The determination of our income taxes for the three months ended October 2, 2020 and September 27, 2019 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 three months ended October 2, 2020 was primarily due to tax expense related to profitable subsidiaries. The tax expense for the three months ended September 27, 2019 was primarily due to tax expense related to profitable subsidiaries and $0.6 million increase in our reserves for uncertain tax positions.

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 and a material increase or decrease in net income in the period in which we change our judgment. During the first quarter of fiscal 2021, 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 Networks, Inc. (“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 that are open and subject to potential audits include the U.S., Singapore, Nigeria, Saudi Arabia and the Ivory Coast. The earliest years for these jurisdictions are as follows: U.S. - 2003; Singapore - 2015; Nigeria - 2006: Saudi Arabia - 2014, and Ivory Coast - 2017.

During the first quarter of 2021, we received a tax refund of $1.2 million from the Federal Revenue of Brazil related to our withholding tax refund claim and recorded minimal tax expense related to interest as a discrete item.

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 months ended October 2, 2020 and September 27, 2019.

On March 27, 2020, the US enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided certain tax relief measures including, but not limited to, (1) a five-year net operating loss carryback, (2) changes in the deduction of interest, (3) acceleration of alternative minimum tax credit (AMT) refunds, and (4) a technical correction to allow accelerated deductions for qualified improvement property. The Tax Cuts and Jobs Act repealed the corporate AMT credit and allowed taxpayers to claim any unused AMT credit over four tax years beginning in tax year 2018. The CARES Act allows for acceleration of the refundable AMT credit up to 100% of the AMT credit to be refunded in tax year 2018. During the third quarter of fiscal 2020, in connection with our analysis of the impact of the CARES Act, we reclassified the refundable AMT credit of $3.4 million from long-term to short-term receivable and recorded no income tax effects on the other tax relief measures of the CARES Act. We continue to examine the elements of CARES Act and the impact they may have on our future business.

Note 11. Net Income Per Share of Common Stock

Net 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 income per share:

	Three Months Ended	
(In thousands, except per share amounts)	**October 2, 2020**	**September 27, 2019**
Numerator:		
Net income	$ 5,936	$ 54
Denominator:		
Weighted-average shares outstanding, basic	5,411	5,347
Effect of potentially dilutive equivalent shares	135	183
Weighted-average shares outstanding, diluted	5,546	5,530
Net income per share of common stock outstanding:		
Basic	$ 1.10	$ 0.01
Diluted	$ 1.07	$ 0.01

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

	Three Months Ended	
(In thousands)	**October 2, 2020**	**September 27, 2019**
Stock options	171	378
Restricted stock units and performance stock units	25	35
Total shares of common stock excluded	196	413

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 October 2, 2020, we had outstanding purchase obligations with our suppliers or contract manufacturers of $23.5 million. In addition, we had contractual obligations of approximately $1.4 million associated with software licenses as of October 2, 2020.

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 October 2, 2020, 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 October 2, 2020, we had commercial commitments of $58.7 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 these 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 October 2, 2020, 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 October 2, 2020, 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 damages from a customer alleging that certain of our products were defective. Although we believe that we have numerous contractual and legal defenses to these disputes, at this time 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.

In March 2016, an enforcement action by the Indian Department of Revenue, Ministry of Finance was brought against our subsidiary 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”), a subsidiary of the Company, 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.

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.

COVID-19

In March 2020, the World Health Organization characterized a recent pandemic of respiratory illness caused by novel coronavirus disease, known as COVID-19, as a pandemic. The pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the COVID-19 pandemic. The COVID-19 pandemic may have an impact on our operations, supply chains and distribution systems and increase our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking or requiring. The extent to which the COVID-19 pandemic impacts our business, prospects and results of operations will depend on future developments, which are highly uncertain and cannot be predicted with certainty, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating activities can resume. Management is actively monitoring the impact of COVID-19 pandemic on our financial condition, liquidity, operations, suppliers, industry, and workforce.

Our first priority remains the health and safety of our employees and their families. Employees whose tasks can be done off-site have been instructed to work from home. Our manufacturing sites support essential businesses and remain operational. We are maintaining social distancing for workers on-site and have enhanced cleaning protocols and usage of personal protective equipment, where appropriate.

The impact to our supply chain lead times and ability to fulfill orders was minimal for the three months ended October 2, 2020. However, depending on pandemic-related factors like the uncertain duration of temporary manufacturing restrictions as well as our ability to perform field services during shelter in place orders, we could experience constraints and delays in fulfilling customer orders in future periods. We continue to monitor, assess and adapt to the situation and prepare for implications to our business, supply chain and customer demand. We expect these challenges to continue until business and economic activities return to more normal levels. The financial results for the three months ended October 2, 2020 reflect some of the reduced activity experienced during the period in various locations around the world and are not necessarily indicative of the results for the full year.

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 Quarterly Report on Form 10-Q. 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:

- *the impact of COVID-19 on our business, operations and cash flows;*
- *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, the effects of COVID-19 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 effects of current and future government regulations, including the effects of current restrictions on various commercial and economic activities in response to the COVID-19 pandemic;*
- *general economic conditions, including uncertainty regarding the timing, pace and extent of an economic recovery in the United States and other countries where we conduct business;*
- *the conduct of unethical business practices in developing countries;*
- *the impact of political turmoil in countries where we have significant business;*
- *the impact of tariffs, the adoption of trade restrictions affecting our products or suppliers, a United States withdrawal from or significant renegotiation of trade agreements, the occurrence of trade wars, the closing of border crossings, and other changes in trade regulations or relationships; 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 2020 Annual Report on Form 10-K filed with the SEC on August 27, 2020 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 expressly disclaim any obligation, other than as required 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 2021 and 2020 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 2, 2021 is referred to as “fiscal 2021” or “2021” and our fiscal year ended July 3, 2020 is referred to as “fiscal 2020” or “2020.”

Overview

We anticipate modest growth in revenue in fiscal 2021. We have a healthy backlog entering fiscal 2021 for North American 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 now further evidence now of investment to support 5G deployments with our U.S. service provider customers. Internationally, we are continuing 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.

In March 2020, the World Health Organization characterized the current respiratory illness caused by novel coronavirus disease, known as COVID-19, as a pandemic. The pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the COVID-19 pandemic. The COVID-19 pandemic has had and is likely to continue to have an impact on our operations, supply chains and distribution systems. COVID-19 pandemic has led to an increase in our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking or requiring. The extent to which the COVID-19 pandemic impacts our business, prospects and results of operations will depend on future developments, which are highly uncertain and cannot be predicted with certainty, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating activities can resume. Management is actively monitoring the impact of COVID-19 pandemic on our financial condition, liquidity, operations, suppliers, industry, and workforce.

Our first priority remains the health and safety of our employees and their families. Employees whose tasks can be done offsite have been instructed to work from home. Our manufacturing sites remain operational, and we are maintaining social distancing and have enhanced cleaning protocols and usage of personal protective equipment, where appropriate.

The impact to our supply chain lead times and ability to fulfill orders was minimal for the three months ended October 2, 2020. However, depending on pandemic-related factors like the uncertain duration of temporary manufacturing restrictions as well as our ability to perform field services during shelter in place orders, we could experience constraints and delays in fulfilling customer orders in future periods. We are monitoring, assessing and adapting to the situation and preparing for implications to our business, supply chain and customer demand. We expect these challenges to continue until business and economic activities return to more normal levels. The financial results for the three months ended October 2, 2020 reflect some of the reduced activity experienced during the period in various locations around the world and are not necessarily indicative of the results for the full year.

Operations Review

The market for mobile backhaul continued to be our primary addressable market segment globally in the first quarter of fiscal 2021. 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 Annual Report on Form 10-K filed with the SEC on August 27, 2020, 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 months ended October 2, 2020 and September 27, 2019 and the related changes were as follows:

	Three Months Ended			
(In thousands, except percentages)	**October 2, 2020**	**September 27, 2019**	**$ Change**	**% Change**
North America	$ 45,499	$ 39,767	$ 5,732	14.4 %
Africa and the Middle East	10,571	10,593	(22)	(0.2)%
Europe and Russia	2,262	3,407	(1,145)	(33.6)%
Latin America and Asia Pacific	7,958	4,847	3,111	64.2 %
Total revenue	$ 66,290	$ 58,614	$ 7,676	13.1 %

Our revenue in North America increased by $5.7 million, or 14.4%, during the first quarter of fiscal 2021 compared with the same period of fiscal 2020 primarily due to an increase in private network projects as well as an increase in mobile operator sales.

Our revenue in Africa and the Middle East was consistent for the first quarter of fiscal 2021 compared with the same period of fiscal 2020.

Revenue in Europe and Russia decreased by $1.1 million, or 33.6%, for the first quarter of fiscal 2021 compared with the same period of fiscal 2020 primarily due to lower sales to mobile operator customers in the region.

Revenue in Latin America and Asia Pacific increased by $3.1 million, or 64.2%, during the first quarter of fiscal 2021 compared with the same period of fiscal 2020 primarily due to higher sales to mobile operator customers in the region.

(In thousands, except percentages)	Three Months Ended October 2, 2020	September 27, 2019	$ Change	% Change
Product sales	$ 44,464	$ 36,594	$ 7,870	21.5 %
Services	21,826	22,020	(194)	(0.9)%
Total revenue	$ 66,290	$ 58,614	$ 7,676	13.1 %

Our revenue from product sales increased by $7.9 million, or 21.5%, for the first quarter of fiscal 2021 compared with the same quarter of fiscal 2020. Product sales increased compared to the same period in fiscal 2020 in all regions, except for Europe and Russia.

Gross Margin

(In thousands, except percentages)	Three Months Ended October 2, 2020	September 27, 2019	$ Change	% Change
Revenue	$ 66,290	$ 58,614	$ 7,676	13.1 %
Cost of revenue	42,041	36,058	5,983	16.6 %
Gross margin	$ 24,249	$ 22,556	$ 1,693	7.5 %
% of revenue	36.6 %	38.5 %		
Product margin %	37.2 %	43.1 %		
Service margin %	35.3 %	30.8 %		

Gross margin for the first quarter of fiscal 2021 increased by $1.7 million, or 7.5% compared with the same quarter of fiscal 2020. Our gross margin increased from the same period last year primarily due to the increased volume of product sales and improved profitability of services.

Product margin as a percentage of product revenue decreased in the first quarter of fiscal 2021 compared with the same period of fiscal 2020 primarily due to product and regional mix. Service margin as a percentage of service revenue increased in the first quarter of fiscal 2021 compared with the same period in fiscal 2020 from improved profitability in most regions.

Research and Development Expenses

(In thousands, except percentages)	Three Months Ended October 2, 2020	September 27, 2019	$ Change	% Change
Research and development	$ 4,847	$ 5,216	$ (369)	(7.1)%
% of revenue	7.3 %	8.9 %		

Our research and development expenses decreased by $0.4 million, or 7.1%, in the first quarter of fiscal 2021 compared with the same period of fiscal 2020 primarily due to cost savings initiatives implemented in the second half of fiscal 2020.

Selling and Administrative Expenses

(In thousands, except percentages)	Three Months Ended October 2, 2020	September 27, 2019	$ Change	% Change
Selling and administrative	$ 12,837	$ 14,644	$ (1,807)	(12.3)%
% of revenue	19.4 %	25.0 %		

Our selling and administrative expenses decreased by $1.8 million, or 12.3%, in the first quarter of fiscal 2021 compared with the same period in fiscal 2020 primarily due to cost savings initiatives implemented in the second half of fiscal 2020.

Restructuring Charges

(In thousands, except percentages)	Three Months Ended October 2, 2020	September 27, 2019	$ Change	% Change
Restructuring charges	$ —	$ 1,177	$ (1,177)	— %

We recognized in the first quarter of fiscal 2020 restructuring charges of $1.2 million related to the Fiscal 2020 Plan, which was primarily to consolidate product development, right size our resources to support our International business and other support functions.

Interest Income, Interest Expense and Other (Expense) Income, Net

(In thousands, except percentages)	Three Months Ended October 2, 2020	September 27, 2019	$ Change	% Change
Interest income	$ 36	$ 86	$ (50)	(58.1)%
Interest expense	$ (1)	$ (3)	$ 2	(66.7)%

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 October 2, 2020	September 27, 2019	$ Change	% Change
Income before income taxes	$ 6,600	$ 1,602	$ 4,998	312.0 %
Provision for income taxes	$ 664	$ 1,548	$ (884)	(57.1)%

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 quarter of fiscal 2021 was primarily due to tax expense related to profitable subsidiaries. The tax expense for the first quarter 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 2021, we received a tax refund of $1.2 million from the Federal Revenue of Brazil related to our withholding tax refund claim and recorded minimal tax expense related to interest as a discrete item.

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 and a material increase or decrease in net income in the period in which we change our judgment. During the first quarter of fiscal 2021, 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 October 2, 2020, our total cash and cash equivalents were $36.2 million. Approximately $21.3 million, or 58.9%, was held in the United States. The remaining balance of $14.9 million, or 41.1%, was held by entities outside the United States. Of the amount of cash and cash equivalents held by our foreign subsidiaries at October 2, 2020, $14.4 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 income adjusted for non-cash items and changes in operating assets and liabilities. Net cash provided by operating activities was $4.2 million for the first three months of fiscal 2021, compared to $5.6 million for the first three months of fiscal 2020; this difference was primarily related to a net change in Accounts receivable and partially offset by the net change in Net income. Net cash provided by noncash items was $2.8 million for the first three months 2021, compared to $2.3 million for the comparable period in Fiscal 2020. The net changes in operating assets and liabilities resulted in a net use of cash of $4.5 million for the first three months of fiscal 2021, compared to net cash provided by $3.3 million for the same period in fiscal 2020.

Changes in operating assets and liabilities resulted in a net use of cash for the first three months of fiscal 2021 was primarily related to Accounts receivable that fluctuate from period to period, depending on the amount, timing of sales and billing activities and cash collections; and the timing of Accrued expenses. The use of cash from assets and liabilities was partially offset by cash provided by the timing of payments of Accounts payable and changes in Inventory due to demand and our focus on inventory management.

Investing Activities

Net cash used in investing activities was $1.0 million and $1.3 million for the first three months of fiscal 2021 and 2020, respectively, which consisted of capital expenditures. During the remainder of fiscal year 2021, we expect to spend approximately $4.0 million for capital expenditures, primarily on equipment for development and manufacturing of new products and IT infrastructure.

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 $8.7 million for the first three months of fiscal 2021, primarily due to $9.0 million repayment of short-term debt.

As of October 2, 2020, our principal sources of liquidity consisted of $36.2 million in cash and cash equivalents; $23.5 million of available credit under our $25.0 million credit facility with Silicon Valley Bank ("SVB Credit Facility") which matures on June 28, 2021, 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. On May 4, 2020, we entered into Amendment No. 3 to Third Amended and Restated Loan and Security Agreement which extended the maturity date of the SVB Credit Facility to June 28, 2021. While we intend to continue to renew the SVB Credit Facility annually, there can be no assurance that the SVB Credit Facility will be renewed. In addition, there can be no assurance that our business will generate cash flow from operations, that 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. If we are not in compliance with the financial covenants or do not have sufficient eligible accounts receivable to support our borrowing base, borrowings under the SVB Credit Facility may not be available or our borrowing base 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 October 2, 2020, we were in compliance with the quarterly financial covenants, as amended, contained in the SVB Credit Facility. We repaid the outstanding balance of $9.0 million during the first three months of fiscal 2021; therefore, there was no amount outstanding as of October 2, 2020.

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 October 2, 2020 and July 3, 2020. 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 October 2, 2020 and July 3, 2020. 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 $1.8 million as of October 2, 2020, 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

The amounts disclosed in our fiscal 2020 Annual Report on Form 10-K filed with the SEC on August 27, 2020 include our commercial commitments and contractual obligations. During the first three months of fiscal 2021, no material changes occurred in our contractual obligations to purchase goods and services or to make payments under operating leases or our contingent liabilities on outstanding letters of credit, guarantees, and other arrangements as disclosed in our fiscal 2020 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

In accordance with the definition under SEC rules (Item 303(a)(4)(ii) of Regulation S-K), any of the following qualify as off-balance sheet arrangements:

- any obligation under certain guarantee contracts;
- a retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- any obligation, including a contingent obligation, under certain derivative instruments; and
- any obligation, including a contingent obligation, arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

Currently we are not participating in transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, and we do not have any material retained or contingent interest in assets as defined above. As of October 2, 2020, we did not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity. In addition, we are not currently a party to any related party transactions that materially affect our results of operations, cash flows or financial condition.

As of October 2, 2020, we had commercial commitments of $58.7 million.

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 for Contractual Obligations and Off-Balance Sheet Arrangements.

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 2020 Annual Report on Form 10-K.

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 October 2, 2020, we had no foreign currency forward contracts.

Net foreign exchange income recorded in our unaudited condensed consolidated statements of operations during the three months ended October 2, 2020 and September 27, 2019 was as follows:

	Three Months Ended	
(In thousands)	October 2, 2020	September 27, 2019
Amount included in costs of revenues	$ 524	$ 216

Certain of our international business is 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 three months of fiscal 2021 and 2020 was $(0.4) million and $0.5 million, respectively, and was included as a component of stockholders’ equity. As of October 2, 2020 and July 3, 2020, the cumulative translation adjustment decreased our equity by $14.6 million and $15.0 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 $36.2 million in total cash and cash equivalents as of October 2, 2020. Cash equivalents totaled $21.5 million as of October 2, 2020 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 October 2, 2020 was 28 days, and these investments had an average yield of approximately 4.78% 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 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 three months of fiscal 2021, our weighted-average interest rate was 3.75%, 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 Financial Officer ("CFO"), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of October 2, 2020, 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 CFO, 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 October 2, 2020 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 CFO, 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

For a discussion of legal proceedings as of October 2, 2020, please refer to “Legal Proceedings” and “Contingent Liabilities” under “Note 12 Commitments and Contingencies” of the Notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, which are incorporated into this item by reference.

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 2020 Annual Report on Form 10-K filed with the SEC on August 27, 2020.

There have been no material changes from the risk factors described in such Annual Report, 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

In May 2018, our board of directors approved a stock repurchase program, which does not have an expiration date, for the repurchase of up to $7.5 million of our common stock. The repurchase program has been suspended temporarily since February 2020; therefore, during the first three months of fiscal 2021, we did not repurchase any shares of our common stock in the open market. As of October 2, 2020, $3.4 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 3.1 to the Current Report on Form 8-K filed with the SEC on September 24, 2020, File No. 001-33278)
4.1	Amended and Restated Tax Benefit Preservation Plan, dated as of August 27, 2020, 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 August 31, 2020, File No. 011-33278)
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 Financial Officer
32.1**	Section 1350 Certification of Chief Executive Officer and Chief 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
*	Filed herewith.
**	Furnished herewith.
+	Constitutes management contracts or compensatory plans or arrangements.

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: November 5, 2020

By: /s/ Eric Chang

Eric Chang
Senior Vice President and Chief Financial Officer (duly authorized officer)

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 October 2, 2020, 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: November 5, 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, Eric Chang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended October 2, 2020, 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: November 5, 2020

/s/ Eric Chang

Name: Eric Chang
Title: Senior Vice President, Chief 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 October 2, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Peter Smith, President and Chief Executive Officer of Aviat Networks, and Eric Chang, Senior Vice President, Chief 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:
November 5, 2020

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

Date:
November 5, 2020

/s/ Eric Chang
Name: Eric Chang
Title: Senior Vice President, Chief Financial Officer