



February 6, 2014

Aviat Networks Announces Fiscal Second Quarter 2014 Financial Results

SANTA CLARA, Calif., Feb. 6, 2014 /PRNewswire/ -- Aviat Networks, Inc. (NASDAQ: AVNW), the leading expert in microwave networking solutions, today reported financial results for the second quarter of fiscal year 2014, which ended December 27, 2013.

Financial Highlights for Q2FY14

- Revenue at \$85.8 million
- Book to bill was above 1
- GAAP Gross Margin at 24.8%; Non-GAAP Gross Margin at 24.9%
- GAAP Operating Expense at \$32.0 million; Non-GAAP Operating Expense at \$30.4 million
- GAAP Net Loss including discontinued operations of \$(9.9) million, or \$(0.16) per share
- Non-GAAP Net Loss from continuing operations of \$(9.4) million, or \$(0.15) per share

A reconciliation of GAAP to non-GAAP financial measures for the fiscal second quarter along with the accompanying notes is provided on Table 4.

"A slower-than expected investment cycle in Africa negatively impacted revenue this quarter. While Aviat benefitted from new customer wins in Asia and Latin America, our fiscal second quarter results are disappointing" said Michael Pangia, president and CEO, Aviat Networks. "Last week we announced a restructuring plan aimed at rapidly realigning our cost structure with near term business conditions. This restructuring, combined with ongoing cost and expense savings, will better position Aviat Networks for the near-term market reality while continuing to position us for future opportunities."

GAAP Financial Results

For the second quarter of fiscal year 2014, revenue was \$85.8 million, compared with \$129.0 million in the year-ago quarter. Aviat Networks reported a net loss, including discontinued operations, of \$(9.9) million, or \$(0.16) per share, compared with a net loss of \$(5.3) million, or \$(0.09) per share in the year-ago quarter. Loss from continuing operations for the quarter was \$(10.2) million, or \$(0.17) per share, compared with the loss from continuing operations of \$(5.0) million, or \$(0.08) per share, in the year-ago quarter. Revenue and results of operations from Aviat Networks' WiMAX business are classified as discontinued operations for all periods presented.

Cash and cash equivalents were \$64.7 million as of December 27, 2013 compared with \$79.3 million as of the end of the prior quarter. The decrease in cash is primarily due to a \$13.2 million cash tax payment to a foreign jurisdiction and capital spending for product introduction.

Non-GAAP Financial Results

Non-GAAP loss from continuing operations for the quarter was \$(9.4) million, or \$(0.15) per share, compared with a non-GAAP income from continuing operations of \$6.4 million, or \$0.10 per diluted share, in the year-ago quarter.

The second quarter of fiscal year 2014 non-GAAP loss from continuing operations excluded \$1.7 million of pre-tax charges composed primarily of the following:

- \$0.7 million for share-based compensation expense;
- \$0.3 million of restructuring charges;
- \$0.1 million for amortization of purchased intangibles; and
- \$0.6 million for transactional taxes assessments.

Fiscal second quarter 2014 Adjusted EBITDA was \$(6.8) million, compared with \$8.6 million in the year-ago quarter. In addition to the \$1.7 million of pre-tax charges excluded from non-GAAP loss from continuing operations noted above, fiscal second quarter 2014 Adjusted EBITDA also excludes \$2.2 million of pre-tax charges comprised of the following:

- \$2.1 million of depreciation and amortization on property, plant and equipment; and
- \$0.1 million of interest expense.

A reconciliation of GAAP to non-GAAP financial measures for the fiscal second quarter along with accompanying notes is provided on Table 4.

Second Quarter Revenue by Region

Revenue in the North America region was \$33.8 million in the second quarter of fiscal 2014, compared with \$41.4 million in the year-ago quarter. International revenue was \$52.0 million, compared with \$87.6 million in the year-ago quarter.

Outlook

Aviat Networks presently expects to return to non-GAAP profitability from continuing operations in the first half of fiscal year 2015. Given limited near-term visibility and the impact that the restructuring plan is going to initially have on the results, Aviat Networks is not providing guidance for the third quarter of fiscal year 2014.

Conference Call Details

Aviat Networks will host a conference call today at 4:30 p.m. Eastern Time to discuss the company's financial results. Those wishing to join the call should dial (480) 629-9712 or toll free at (877) 941-2068 access code 4662815 at approximately 4:20 p.m. Eastern Time. A replay also will be available starting approximately one hour after the completion of the call until February 13, 2014. To access the replay, dial (303) 590-3030 or toll free at (800) 406-7325 access code 4662815. A live and archived webcast of the conference call will also be available via the company's Web site at <http://investors.aviatnetworks.com/events.cfm>.

Non-GAAP Measures and Comparative Financial Information

Aviat Networks, Inc. reports information in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Management of Aviat Networks monitors gross margin, research and development expenses, selling and administrative expenses, operating income or loss, income tax provision or benefit, income or loss from continuing operations, basic and diluted income or loss per share from continuing operations, adjusted earnings (losses) before interest, tax, depreciation and amortization ("Adjusted EBITDA") adjusted to exclude certain costs, charges, gains and losses, on a non-GAAP basis for planning and forecasting results in future periods, and may use these measures for some management compensation purposes. These measures exclude certain costs, expenses, gains and losses as shown on the attached Reconciliation of Non-GAAP Financial Measures table. As a result, management is presenting these non-GAAP measures in addition to results reported in accordance with GAAP to better communicate underlying operational and financial performance in each period. Management believes these non-GAAP measures provide information that is useful to investors in understanding period-over-period operating results separate and apart from items that may, or could, have a disproportionate positive or negative impact on results in any given period. Management also believes that these non-GAAP measures enhance the ability of an investor to analyze trends in Aviat Networks' business and to better understand our performance.

Aviat Networks' management does not, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Aviat Networks presents these non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate its financial performance. Reconciliations of these non-GAAP financial measures with the most directly comparable financial measures calculated in accordance with GAAP are included in the tables below.

About Aviat Networks

Aviat Networks, Inc. (NASDAQ: AVNW) is a leading global provider of microwave networking solutions transforming communications networks to handle the exploding growth of IP-centric, multi-Gigabit data services. With more than 750,000 systems installed around the world, Aviat Networks provides LTE-proven microwave networking solutions to mobile operators, including some of the largest and most advanced 4G/LTE networks in the world. Public safety, utility, government and defense organizations also trust Aviat Networks' solutions for their mission-critical applications where reliability is paramount. In conjunction with its networking solutions, Aviat Networks provides a comprehensive suite of localized professional and support services enabling customers to effectively and seamlessly migrate to next generation Carrier Ethernet/IP networks. For more than 50 years, customers have relied on Aviat Networks' high performance and scalable solutions to help them maximize their investments and solve their most challenging network problems. Headquartered in Santa Clara, California, Aviat Networks operates in more than 100 countries around the world. For more information, visit www.aviatnetworks.com or connect with Aviat Networks on Twitter, Facebook and LinkedIn.

Forward-Looking Statements

The information contained in this document includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act and Section 27A of the Securities Act, including the results of Aviat Networks' restructuring efforts and ongoing cost and expenses savings and expectations regarding fiscal year 2015. All statements, trend analyses and other information contained herein about the markets for the services and products of Aviat Networks, Inc. and trends in revenue, as well as other statements identified by the use of forward-looking terminology, including "anticipate," "believe," "plan," "estimate," "expect," "goal," "will," "see," "continue," "delivering," "view," and "intend," or the negative of these terms or other similar expressions, constitute forward-looking statements. These forward-looking statements are based on estimates reflecting the current beliefs of the senior management of Aviat Networks. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should therefore be considered in light of various important factors, including those set forth in this document. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include the following:

- continued price and margin erosion as a result of increased competition in the microwave transmission industry;
- the impact of the volume, timing and customer, product and geographic mix of our product orders;
- our ability to meet projected new product development dates or anticipated cost reductions of new products;
- our suppliers' inability to perform and deliver on time as a result of their financial condition, component shortages or other supply chain constraints;
- customer acceptance of new products;
- the ability of our subcontractors to timely perform;
- continued weakness in the global economy affecting customer spending;
- retention of our key personnel;
- our ability to manage and maintain key customer relationships;
- uncertain economic conditions in the telecommunications sector combined with operator and supplier consolidation;

- the timing of our receipt of payment for products or services from our customers;
- our failure to protect our intellectual property rights or defend against intellectual property infringement claims by others;
- the results of restructuring efforts;
- the effects of currency and interest rate risks; and
- the impact of political turmoil in countries where we have significant business.

For more information regarding the risks and uncertainties for our business, see "Risk Factors" in our Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on September 23, 2013 as well as other reports filed by Aviat Networks, Inc. with the SEC from time to time. Aviat Networks undertakes no obligation to update publicly any forward-looking statement for any reason, except as required by law, even as new information becomes available or other events occur in the future.

Financial Tables to Follow:

Table 1

AVIAT NETWORKS, INC.

Fiscal Year 2014 Second Quarter Summary

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Quarter Ended		Two Quarters Ended	
	December 27, 2013	December 28, 2012 ⁽¹⁾	December 27, 2013	December 28, 2012 ⁽¹⁾
	(In millions, except per share amounts)			
Revenue from product sales and services	\$ 85.8	\$ 129.0	\$ 179.2	\$ 244.0
Cost of product sales and services	64.5	90.3	134.8	171.6
Gross margin	21.3	38.7	44.4	72.4
Research and development expenses	9.4	9.8	19.1	19.1
Selling and administrative expenses	22.2	23.7	44.4	47.0
Amortization of intangible assets	0.1	0.1	0.2	0.2
Restructuring charges	0.3	0.2	4.8	0.5
Operating income (loss)	(10.7)	4.9	(24.1)	5.6
Interest income	0.1	0.2	0.1	0.5
Interest expense	(0.1)	(0.2)	(0.2)	(0.5)
Income (loss) from continuing operations before income taxes	(10.7)	4.9	(24.2)	5.6
Provision for (benefit from) income taxes	(0.5)	9.9	(0.3)	11.4
Loss from continuing operations	(10.2)	(5.0)	(23.9)	(5.8)
Income (loss) from discontinued operations, net of tax	0.3	(0.3)	0.4	(1.7)
Net loss	\$ (9.9)	\$ (5.3)	\$ (23.5)	\$ (7.5)
Income (loss) per common share, basic and diluted:				
Continuing operations	\$ (0.17)	\$ (0.08)	\$ (0.39)	\$ (0.10)
Discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.01	\$ (0.03)
Net loss	\$ (0.16)	\$ (0.09)	\$ (0.38)	\$ (0.13)
Weighted average shares outstanding, basic and diluted	61.8	60.0	61.3	59.7

(1) Certain prior year period amounts are reclassified to conform to current period presentation.

Table 2

AVIAT NETWORKS, INC.

Fiscal Year 2014 Second Quarter Summary

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 27, 2013	June 28, 2013 ⁽¹⁾
	(In millions)	
Assets		
Cash and cash equivalents	\$ 64.7	\$ 90.0
Receivables, net	75.8	86.3
Unbilled costs	35.9	28.9

Inventories	36.8	35.0
Customer service inventories	14.8	16.2
Other current assets	18.3	17.9
Property, plant and equipment, net	30.3	28.8
Identifiable intangible assets, net	0.6	0.8
Other assets	2.2	1.9
	\$ 279.4	\$ 305.8
Liabilities and Stockholders' Equity		
Short-term debt	\$ 6.0	\$ 8.8
Accounts payable	45.7	50.6
Advanced payments and unearned income, current	28.9	18.6
Accrued expenses and other current liabilities	55.1	53.1
Other long-term liabilities	14.8	24.8
Stockholders' equity	128.9	149.9
	\$ 279.4	\$ 305.8

(1) Certain prior year period amounts are reclassified to conform to current period presentation.

Table 3
AVIAT NETWORKS, INC.
Fiscal Year 2014 Second Quarter Summary
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Two Quarters Ended	
	December 27, 2013	December 28, 2012 ⁽¹⁾
	(In millions)	
Operating Activities		
Net loss	\$ (23.5)	\$ (7.5)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of identifiable intangible assets	0.2	0.5
Depreciation and amortization of property, plant and equipment	3.5	2.9
Bad debt expense (recovery)	(0.2)	2.0
Share-based compensation expense	2.2	3.3
Charges for inventory write-downs	1.1	3.3
Changes in operating assets and liabilities:		
Receivables	10.8	(10.3)
Unbilled costs	(6.9)	9.1
Inventories	(2.6)	(2.5)
Customer service inventories	1.0	0.6
Accounts payable	(4.6)	(13.0)
Accrued expenses	1.2	(5.0)
Advance payments and unearned income	9.3	11.4
Income taxes payable or receivable	2.5	(1.2)
Reserve for uncertain tax positions and deferred taxes	(14.9)	11.4
Other assets and liabilities	3.3	(1.5)
Net cash provided by (used in) operating activities	(17.6)	3.5
Investing Activities		
Additions of property, plant and equipment	(5.4)	(3.6)
Net cash used in investing activities	(5.4)	(3.6)
Financing Activities		
Payments on long-term debt	(2.8)	(2.1)
Proceeds from share-based compensation awards	0.1	0.1
Payments on capital lease obligations	(0.1)	—
Net cash used in financing activities	(2.8)	(2.0)
Effect of exchange rate changes on cash and cash equivalents	0.5	0.9
Net Decrease in Cash and Cash Equivalents	(25.3)	(1.2)
Cash and Cash Equivalents, Beginning of Period	90.0	96.0
Cash and Cash Equivalents, End of Period	\$ 64.7	\$ 94.8

(1) Certain prior year period amounts are reclassified to conform to current period presentation.

technology	—		0.1		—		0.3	
Transactional taxes assessments	0.6		—		0.6		0.6	
Amortization of intangible assets	0.1		0.1		0.2		0.2	
Restructuring charges	0.3		0.2		4.8		0.5	
Adjustment to reflect pro forma tax rate	(0.9)		9.2		(1.3)		10.1	
Non-GAAP income (loss) from continuing operations	\$ (9.4)	(11.0) %	\$ 6.4	5.0 %	\$ (17.2)	(9.6) %	\$ 9.2	3.8 %

Income (loss) per share from continuing operations

Basic:								
GAAP	\$ (0.17)		\$ (0.08)		\$ (0.39)		\$ (0.10)	
Non-GAAP	\$ (0.15)		\$ 0.10		\$ (0.28)		\$ 0.15	
Diluted:								
GAAP	\$ (0.17)		\$ (0.08)		\$ (0.39)		\$ (0.10)	
Non-GAAP	\$ (0.15)		\$ 0.10		\$ (0.28)		\$ 0.15	

Shares used in computing income (loss) per share from continuing operations

Basic:								
GAAP	61.8		60.0		61.3		59.7	
Non-GAAP	61.8		61.2		61.3		61.2	
Diluted:								
GAAP	61.8		60.0		61.3		59.7	
Non-GAAP	61.8		61.5		61.3		61.4	

ADJUSTED EBITDA:

GAAP loss from continuing operations	\$ (10.2)	(11.9) %	\$ (5.0)	(3.9) %	\$ (23.9)	(13.3) %	\$ (5.8)	(2.4) %
Depreciation and amortization of property, plant and equipment	2.1		1.3		3.5		2.9	
Interest expense	0.1		0.2		0.2		0.5	
Share-based compensation	0.7		1.8		2.2		3.3	
Warehouse consolidation costs	—		—		0.2		—	
Amortization of purchased technology	—		0.1		—		0.3	
Transactional taxes assessments	0.6		—		0.6		0.6	
Amortization of intangible assets	0.1		0.1		0.2		0.2	
Restructuring charges	0.3		0.2		4.8		0.5	
Provision for (benefit from) income taxes	(0.5)		9.9		(0.3)		11.4	
Adjusted EBITDA	\$ (6.8)	(7.9) %	\$ 8.6	6.7 %	\$ (12.5)	(7.0) %	\$ 13.9	5.7 %

(1) The adjustments above reconcile our GAAP financial results to the non-GAAP financial measures used by us. Our non-GAAP income or loss from continuing operations excluded share-based compensation, warehouse consolidation costs, amortization of purchased technology, transactional taxes assessments, amortization of intangible assets, restructuring charges, and adjustment to reflect pro forma tax rate. Adjusted EBITDA was determined by excluding depreciation and amortization on property, plant and equipment, interest expense, provision for income taxes, and non-GAAP pre-tax adjustments, as set forth above, from the GAAP income (loss) from continuing operations. We believe that the presentation of these non-GAAP items provides meaningful supplemental information to investors, when viewed in conjunction with, and not in lieu of, our GAAP results. However, the non-GAAP financial measures have not been prepared under a comprehensive set of accounting rules or principles. Non-GAAP information should not be considered in isolation from, or as a substitute for, information prepared in accordance with GAAP. Moreover, there are material limitations associated with the use of non-GAAP financial measures.

(2) Certain prior year period amounts are reclassified to conform to current period presentation.

Table 5

AVIAT NETWORKS, INC.

Fiscal Year 2014 Second Quarter Summary

SUPPLEMENTAL SCHEDULE OF REVENUE BY GEOGRAPHICAL AREA

(Unaudited)

	Quarter Ended		Two Quarters Ended	
	December 27, 2013	December 28, 2012	December 27, 2013	December 28, 2012
	(in millions)			
North America	\$ 33.8	\$ 41.4	\$ 67.5	\$ 80.1
International:				
Africa and Middle East	26.0	63.9	63.0	112.9
Europe and Russia	10.0	9.2	18.6	21.6
Latin America and Asia Pacific	16.0	14.5	30.1	29.4

	<u>52.0</u>	<u>87.6</u>	<u>111.7</u>	<u>163.9</u>
Total Revenue	\$ 85.8	\$ 129.0	\$ 179.2	\$ 244.0

SOURCE Aviat Networks, Inc.

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