

**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 March 31, 2023

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

(State or other jurisdiction of incorporation or organization)

200 Parker Drive, Suite C100A, Austin, Texas
(Address of principal executive offices)

20-5961564

(I.R.S. Employer Identification No.)

78728
(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
Common Stock

Trading Symbol(s)
AVNW

Name of each exchange on which Registered
The Nasdaq Global Select Market

Indicate by checkmark whether the registrant (1) 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting 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 13(a) of the Exchange 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 April 28, 2023 was 11,440,689.

AVIAT NETWORKS, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarterly Period Ended March 31, 2023
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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)	March 31, 2023	July 1, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 22,456	\$ 36,877
Marketable securities	—	10,893
Accounts receivable, net	88,458	73,168
Unbilled receivables	63,344	45,857
Inventories	39,083	25,394
Customer service inventories	1,857	1,775
Other current assets	21,306	12,437
Total current assets	236,504	206,401
Property, plant and equipment, net	10,570	8,887
Goodwill	4,950	—
Intangible assets, net	6,918	—
Deferred income taxes	88,750	95,412
Right of use assets	2,669	2,759
Other assets	14,301	10,445
TOTAL ASSETS	\$ 364,662	\$ 323,904
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term debt	\$ 6,200	\$ —
Accounts payable	61,670	42,394
Accrued expenses	23,397	26,451
Short-term lease liabilities	721	513
Advance payments and unearned revenue	40,348	33,740
Restructuring liabilities	884	1,381
Total current liabilities	133,220	104,479
Unearned revenue	7,628	8,920
Long-term lease liabilities	2,255	2,412
Other long-term liabilities	279	273
Reserve for uncertain tax positions	5,363	5,504
Deferred income taxes	563	563
Total liabilities	149,308	122,151
Commitments and contingencies (Note 13)		
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, 11,436,542 shares issued and outstanding at March 31, 2023; 11,160,160 shares issued and outstanding at July 1, 2022	114	112
Treasury stock	(6,147)	(6,147)
Additional paid-in-capital	828,411	823,259
Accumulated deficit	(591,253)	(599,442)
Accumulated other comprehensive loss	(15,771)	(16,029)
Total equity	215,354	201,753
TOTAL LIABILITIES AND EQUITY	\$ 364,662	\$ 323,904

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		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Revenues:				
Revenue from product sales	\$ 54,811	\$ 52,047	\$ 175,473	\$ 156,361
Revenue from services	28,669	22,469	79,941	69,177
Total revenues	83,480	74,516	255,414	225,538
Cost of revenues:				
Cost of product sales	35,745	31,850	111,567	97,789
Cost of services	17,902	15,130	52,340	45,976
Total cost of revenues	53,647	46,980	163,907	143,765
Gross margin	29,833	27,536	91,507	81,773
Operating expenses:				
Research and development expenses	6,518	5,259	18,652	17,338
Selling and administrative expenses	15,842	14,867	49,913	41,304
Restructuring (recovery) charges	(23)	(72)	2,855	(373)
Total operating expenses	22,337	20,054	71,420	58,269
Operating income	7,496	7,482	20,087	23,504
Other (income)/expense, net	428	175	2,750	387
Income before income taxes	7,068	7,307	17,337	23,117
Provision for income taxes	2,179	1,278	9,148	6,490
Net income	\$ 4,889	\$ 6,029	\$ 8,189	\$ 16,627
Net income per share of common stock outstanding:				
Basic	\$ 0.43	\$ 0.54	\$ 0.72	\$ 1.49
Diluted	\$ 0.41	\$ 0.51	\$ 0.69	\$ 1.40
Weighted-average shares outstanding:				
Basic	11,413	11,173	11,319	11,172
Diluted	11,884	11,761	11,829	11,848

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Net income	\$ 4,889	\$ 6,029	\$ 8,189	\$ 16,627
Other comprehensive income (loss):				
Net change in cumulative translation adjustments	370	(786)	258	(1,058)
Other comprehensive income (loss)	370	(786)	258	(1,058)
Comprehensive income	\$ 5,259	\$ 5,243	\$ 8,447	\$ 15,569

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended	
	March 31, 2023	April 1, 2022
Operating Activities		
Net income	\$ 8,189	\$ 16,627
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	4,193	3,444
Amortization of intangible assets acquired	372	—
Provision for/(recovery from) uncollectible receivables	476	(56)
Share-based compensation	5,135	2,464
Deferred tax assets, net	5,189	5,437
Charges for inventory and customer service inventory write-downs	1,715	1,140
Loss (gain) on disposition of property, plant and equipment, net	34	(66)
Noncash lease expense	524	620
Net loss (gain) on marketable securities	1,730	(23)
Restructuring charges (recoveries)	—	(373)
Changes in operating assets and liabilities:		
Accounts receivable	(12,212)	(28,252)
Unbilled receivables	(17,719)	(8,446)
Inventories	(8,961)	(5,634)
Customer service inventories	(958)	(1,061)
Accounts payable	16,344	7,934
Accrued expenses	(3,594)	(569)
Advance payments and unearned revenue	1,948	4,719
Income taxes payable or receivable	1,932	(1,400)
Other assets and liabilities	(12,814)	(6,652)
Change in lease liabilities	(528)	(641)
Net cash used in operating activities	<u>(9,005)</u>	<u>(10,788)</u>
Investing Activities		
Payments for acquisition of property, plant and equipment	(5,055)	(1,028)
Proceeds from sale of marketable securities	9,163	—
Purchase of marketable securities	—	(2,492)
Proceeds from sale of asset held for sale	—	2,284
Acquisition, net of cash acquired and purchases of intangible assets	(15,769)	—
Net cash used in investing activities	<u>(11,661)</u>	<u>(1,236)</u>
Financing Activities		
Proceeds from borrowings	50,200	—
Repayments of borrowings	(44,000)	—
Payments for repurchase of common stock - treasury shares	—	(4,611)
Payments for taxes related to net settlement of equity awards	(1,055)	(358)
Proceeds from issuance of common stock under employee stock plans	1,074	931
Net cash provided by (used in) financing activities	<u>6,219</u>	<u>(4,038)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	9	(663)
Net decrease in cash, cash equivalents, and restricted cash	<u>(14,438)</u>	<u>(16,725)</u>
Cash, cash equivalents, and restricted cash, beginning of period	<u>37,104</u>	<u>48,198</u>
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 22,666</u>	<u>\$ 31,473</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

Three Months Ended March 31, 2023

(In thousands, except share amounts)	Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	\$ Amount					
Balance as of December 30, 2022	11,377,066	\$ 114	\$ (6,147)	\$ 826,812	\$ (596,142)	\$ (16,141)	\$ 208,496
Net income	—	—	—	—	4,889	—	4,889
Other comprehensive income, net of tax	—	—	—	—	—	370	370
Issuance of common stock under employee stock plans	71,281	(1)	—	328	—	—	327
Shares withheld for taxes related to vesting of equity awards	(11,805)	1	—	(367)	—	—	(366)
Share-based compensation	—	—	—	1,638	—	—	1,638
Balance as of March 31, 2023	11,436,542	\$ 114	\$ (6,147)	\$ 828,411	\$ (591,253)	\$ (15,771)	\$ 215,354

Three Months Ended April 1, 2022

(In thousands, except share amounts)	Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	\$ Amount					
Balance as of December 31, 2021	11,195,542	\$ 112	\$ (3,408)	\$ 820,791	\$ (610,004)	\$ (14,599)	\$ 192,892
Net income	—	—	—	—	6,029	—	6,029
Other comprehensive loss, net of tax	—	—	—	—	—	(786)	(786)
Issuance of common stock under employee stock plans	37,327	1	—	345	—	—	346
Shares withheld for taxes related to vesting of equity awards	—	—	—	—	—	—	—
Stock repurchase	(65,951)	(1)	(1,990)	—	—	—	(1,991)
Share-based compensation	—	—	—	840	—	—	840
Balance as of April 1, 2022	11,166,918	\$ 112	\$ (5,398)	\$ 821,976	\$ (603,975)	\$ (15,385)	\$ 197,330

Nine Months Ended March 31, 2023

(In thousands, except share amounts)	Common Stock						Total Equity
	Shares	\$ Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	
Balance as of July 1, 2022	11,160,160	\$ 112	\$ (6,147)	\$ 823,259	\$ (599,442)	\$ (16,029)	\$ 201,753
Net income	—	—	—	—	8,189	—	8,189
Other comprehensive income, net of tax	—	—	—	—	—	258	258
Issuance of common stock under employee stock plans	310,355	2	—	1,072	—	—	1,074
Shares withheld for taxes related to vesting of equity awards	(33,973)	—	—	(1,055)	—	—	(1,055)
Stock repurchase	—	—	—	—	—	—	—
Share-based compensation	—	—	—	5,135	—	—	5,135
Balance as of March 31, 2023	11,436,542	\$ 114	\$ (6,147)	\$ 828,411	\$ (591,253)	\$ (15,771)	\$ 215,354

Nine Months Ended April 1, 2022

(In thousands, except share amounts)	Common Stock						Total Equity
	Shares	\$ Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	
Balance as of July 2, 2021	11,153,445	\$ 112	\$ (787)	\$ 818,939	\$ (620,602)	\$ (14,327)	\$ 183,335
Net income	—	—	—	—	16,627	—	16,627
Other comprehensive loss, net of tax	—	—	—	—	—	(1,058)	(1,058)
Issuance of common stock under employee stock plans	172,996	2	—	931	—	—	933
Shares withheld for taxes related to vesting of equity awards	(10,134)	—	—	(358)	—	—	(358)
Stock repurchase	(149,389)	(2)	(4,611)	—	—	—	(4,613)
Share-based compensation	—	—	—	2,464	—	—	2,464
Balance as of April 1, 2022	11,166,918	\$ 112	\$ (5,398)	\$ 821,976	\$ (603,975)	\$ (15,385)	\$ 197,330

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. (“Aviat,” 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 and nine months ended March 31, 2023 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 1, 2022.

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 March 31, 2023 and the three months ended April 1, 2022 both consisted of 13 weeks. Fiscal year 2023 will be comprised of 52 weeks and will end on June 30, 2023. Fiscal year 2022 was comprised of 52 weeks and ended on July 1, 2022.

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, business combinations, provision for uncollectible receivables, inventory valuation, valuation allowances for deferred tax assets, uncertainties in income taxes, contingencies and recoverability of long-lived assets. 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 March 31, 2023 and for the nine months ended March 31, 2023, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended July 1, 2022.

Accounting Standards Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“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, ASU 2019-05 and ASU 2022-02 (collectively, “Topic 326”). Topic 326 requires measurement and recognition of expected credit losses for financial assets held. Topic 326 became effective for us in our first quarter of fiscal 2023. The adoption had no material impact 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 the 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)	March 31, 2023	July 1, 2022
Cash and cash equivalents	\$ 22,456	\$ 36,877
Restricted cash included in other assets	210	227
Total cash, cash equivalents, and restricted cash in the Statement of Cash Flows	<u>\$ 22,666</u>	<u>\$ 37,104</u>

Accounts Receivable, net

Our net accounts receivable are summarized below:

(In thousands)	March 31, 2023	July 1, 2022
Accounts receivable	\$ 89,174	\$ 74,102
Less: Allowances for collection losses	(716)	(934)
Total accounts receivable, net	<u>\$ 88,458</u>	<u>\$ 73,168</u>

Inventories

Our inventories are summarized below:

(In thousands)	March 31, 2023	July 1, 2022
Finished products	\$ 24,916	\$ 14,916
Raw materials and supplies	14,167	10,478
Total inventories	<u>\$ 39,083</u>	<u>\$ 25,394</u>
Consigned inventories included within raw materials and supplies	\$ 10,408	\$ 9,796

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 and nine months ended March 31, 2023 and April 1, 2022, respectively, consisted of the following which were recorded in cost of product sales:

(In thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Excess and obsolete inventory	\$ 275	\$ 196	\$ 856	\$ 436
Customer service inventory write-downs	302	286	859	704
Total inventory charges	<u>\$ 577</u>	<u>\$ 482</u>	<u>\$ 1,715</u>	<u>\$ 1,140</u>

Assets Held for Sale

We consider properties to be assets held for sale when management approves and commits to a plan to dispose of a property or group of properties. The property held for sale prior to the sale date is separately presented on our unaudited condensed consolidated balance sheet as "Assets Held for Sale".

During the second quarter of fiscal 2021 management initiated the sale of our facility located in the United Kingdom. We completed the sale during the third quarter of fiscal 2022 with proceeds of \$2.3 million, reflecting a gain of \$0.1 million. We have no assets held for sale as of March 31, 2023 and July 1, 2022.

Property, Plant and Equipment, net

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

(In thousands)	March 31, 2023	July 1, 2022
Land	\$ 210	\$ 210
Buildings and leasehold improvements	5,889	5,796
Software	17,075	21,368
Machinery and equipment	47,144	49,584
Total property, plant and equipment, gross	70,318	76,958
Less: Accumulated depreciation and amortization	(59,748)	(68,071)
Total property, plant and equipment, net	\$ 10,570	\$ 8,887

Included in the total plant, property and equipment above there were \$0.8 million of assets in progress which have not been placed in service as of March 31, 2023 and \$1.2 million as of July 1, 2022.

Depreciation and amortization expense related to property, plant and equipment, including amortization of software developed for internal use, was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Depreciation and amortization	\$ 1,428	\$ 1,051	\$ 4,193	\$ 3,444

Accrued Expenses

Our accrued expenses are summarized below:

(In thousands)	March 31, 2023	July 1, 2022
Accrued compensation and benefits	\$ 8,119	\$ 11
Accrued agent commissions	1,119	1
Accrued warranties	2,311	2
Other	11,848	10
Total accrued expenses	\$ 23,397	\$ 26

Accrued Warranties

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

(In thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Balance as of the beginning of the period	\$ 2,549	\$ 3,198	\$ 2,913	\$ 3
Warranty provision recorded during the period	186	402	560	1
Assumed in Redline acquisition	—	—	55	
Consumption during the period	(424)	(377)	(1,217)	(1)
Balance as of the end of the period	\$ 2,311	\$ 3,223	\$ 2,311	\$ 3

Advance Payments and Unearned Revenue

Our advance payments and unearned revenue are summarized below:

(In thousands)	March 31, 2023	July 1, 2022
Advance payments	\$ 1,425	\$ 1
Unearned revenue	38,923	31
Total advance payments and unearned revenue	\$ 40,348	\$ 33

Excluded from the balances above are \$7.6 million and \$8.9 million in long-term unearned revenue as of March 31, 2023 and July 1, 2022, 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 fair values, and valuation input levels of our assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2023 and July 1, 2022 were as follows:

(In thousands)	March 31, 2023	July 1, 2022	Valuation Inputs
	Fair Value	Fair Value	
Assets:			
Cash and cash equivalents:			
Money market funds	\$ —	\$ 5,367	Level 1
Bank certificates of deposit	\$ 3,690	\$ 3,682	Level 2
Marketable securities	\$ —	\$ 10,893	Level 1

We classify items within Level 1 if quoted prices are available in active markets. Historically our Level 1 items mainly are money market funds. As of July 1, 2022, money market funds were valued at \$1.00 net asset value per share.

Our marketable securities are included in current assets on our balance sheet as they are available to be converted into cash to fund current operations. These marketable securities are publicly traded stock measured at fair value and classified within Level 1. For the nine months ended March 31, 2023 we recognized a loss of \$1.7 million associated with the sales of our marketable securities recorded in Other (income)/expense, net.

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 are classified within Level 2.

As of March 31, 2023 and July 1, 2022, 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 nine months of fiscal 2023 and 2022, 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" 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 nine months ended March 31, 2023.

The following summarizes our lease costs:

	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
	(In thousands)			
Operating lease costs	\$ 270	\$ 251	\$ 817	\$ 813
Short-term lease costs	490	623	1,507	1,823
Variable lease costs	12	64	92	138
Total lease costs	<u>\$ 772</u>	<u>\$ 938</u>	<u>\$ 2,416</u>	<u>\$ 2,774</u>

The following summarizes our lease term and discount rate for the nine months ended March 31, 2023:

Weighted average remaining lease term	6.8
Weighted average discount rate	5

As of March 31, 2023, 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):

	<u>Amount</u>	
	(In thousands)	
Remainder of 2023	\$	331
2024		734
2025		633
2026		490
2027		169
Thereafter		1,385
Total lease payments		<u>3,742</u>
Less: interest		(766)
Present value of lease liabilities	\$	<u>2,976</u>

Note 5. Credit Facility and Debt

On May 17, 2021, we entered into Amendment No. 4 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, 2024. Under Federal Deposit Insurance Corporation (“FDIC”) receivership, SVB became SVB Bridge Bank as of March 13, 2023, but the Credit Facility remained in full force and effect. 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 sub-limit that can be borrowed by our U.S. and Singapore entities. 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 sub-limit. We may prepay loans under the SVB Credit Facility in whole or in part at any time without premium or penalty. As of March 31, 2023, available credit under the SVB Credit Facility was \$15.8 million, reflecting the available limit of \$25.0 million less outstanding letters of credit of \$3.0 million. We borrowed \$50.2 million and repaid \$44.0 million against the SVB Credit Facility during the nine months ended March 31, 2023 at the weighted average interest rate was 6.96%. As of March 31, 2023 there was \$6.2 million of borrowing outstanding.

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.

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 March 31, 2023, we were not in compliance with the affirmative covenant in Section 6.8 of the SVB Credit Facility, as amended, which restricts Aviat from having domestic operating or depository accounts with banks other than SVB. We opened a non-SVB deposit account with Wells Fargo Bank, N.A. in the immediate aftermath of the SVB closure by regulatory authorities on March 10, 2023 so that we could continue receiving customer remittances. We subsequently

requested and received a waiver from the lender for this noncompliance. We were in compliance with all other aspects of the credit agreement as of March 31, 2023.

At March 31, 2023, the Company held cash and cash equivalents at Silicon Valley Bridge Bank, N.A. (“SVB Bridge Bank”) in excess of government insured limits. On March 10, 2023, Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation, and the FDIC was appointed as receiver and Silicon Valley Bank was subsequently transferred into a new entity, SVB Bridge Bank. On March 12, 2023, the U.S. Treasury Department, the Federal Reserve and the FDIC jointly announced enabling actions that fully protect all Silicon Valley Bank depositors’ insured and uninsured deposits, and that such depositors would have access to all of their funds starting March 13, 2023. On March 14, 2023, the Company was able to access its full deposits with SVB Bridge Bank.

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):

	<u>March 31, 2023</u>	<u>July 1, 2022</u>
Contract Balances		
Accounts receivable, net	\$ 88,458	\$ 73,168
Contract Assets	\$ 63,344	\$ 45,857
Capitalized commissions	\$ 2,231	\$ 2,341
Contract Liabilities		
Advance payments and unearned revenue	\$ 40,348	\$ 33,740
Unearned revenue, long-term	\$ 7,628	\$ 8,920

Capitalized commissions are classified as current and long term and included in Other current assets and Other assets, respectively. 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 March 31, 2023, we had \$48.0 million in advance payments and unearned revenue and long-term unearned revenue, of which approximately 20% is expected to be recognized as revenue in the remainder of fiscal 2023 and the balance thereafter. During the three and nine months ended March 31, 2023 we recognized \$5.0 million and \$16.9 million, respectively, of revenue which was included in advance payments and unearned revenue at July 1, 2022.

Remaining Performance Obligations

The aggregate amount of transaction price allocated to our unsatisfied (or partially unsatisfied) performance obligations was approximately \$111.8 million at March 31, 2023. Of this amount, we expect to recognize approximately 50% 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 (“CEO”).

We report revenue by region and country based on the location where our customers accept delivery of our products and services. Revenue by region for the three and nine months ended March 31, 2023 and April 1, 2022 was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
North America	\$ 46,064	\$ 49,042	\$ 146,961	\$ 151,025
Africa and the Middle East	19,235	13,123	44,354	37,360
Europe	3,871	2,898	13,705	8,509
Latin America and Asia Pacific	14,310	9,453	50,394	28,644
Total revenue	\$ 83,480	\$ 74,516	\$ 255,414	\$ 225,538

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 were as follows:

	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Motorola Solutions, Inc.	*	12.0 %	*	13.0 %
Mobile Telephone Networks Group (MTN Group)	12.0 %	13.0 %	*	10.0 %

* Less than 10.0%

Customer accounting for 10% or more of our accounts receivable were as follows:

	March 31, 2023	July 1, 2022
Mobile Telephone Networks Group (MTN Group)	16.0 %	17.0 %

Note 8. Equity

Stock Repurchase Program

In November 2021 our Board of Directors approved a stock repurchase program to purchase up to \$10.0 million of our common stock. As of March 31, 2023, \$8.0 million remains available and we may choose to suspend or discontinue the repurchase program at any time.

During the first nine months of fiscal 2023, we did not repurchase any shares of our common stock in the open market.

Stock Incentive Programs

As of March 31, 2023, we have a stock incentive plan for our employees and non-employee directors, the 2018 Incentive Plan (the "2018 Plan"). The 2018 Plan 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 generally vest on the day before the next 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 nine months ended March 31, 2023, we granted 74,827 restricted stock units, 49,321 market-based stock units and 110,945 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:

(In thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
By Expense Category:				
Cost of revenues	\$ 125	\$ 101	\$ 463	\$ 271
Research and development	113	5	385	103
Selling and administrative	1,400	734	4,287	2,090
Total share-based compensation expense	\$ 1,638	\$ 840	\$ 5,135	\$ 2,464
By Types of Award:				
Options	\$ 46	\$ 139	\$ 862	\$ 434
Restricted and performance stock awards and units	1,592	701	4,273	2,030
Total share-based compensation expense	\$ 1,638	\$ 840	\$ 5,135	\$ 2,464

As of March 31, 2023, there was approximately \$2.0 million of total unrecognized compensation expense related to non-vested stock options granted which is expected to be recognized over a weighted-average period of 1.6 years. As of March 31, 2023, there was \$9.2 million of total unrecognized compensation expense related to non-vested stock awards which is expected to be recognized over a weighted-average period of 1.6 years.

Note 9. Restructuring Activities

The following table summarizes our restructuring-related activities:

(In thousands)	Severance and Benefits				Total
	Q2 2023 Plan	Q1 2023 Plan	Q4 2022 Plan	Fiscal 2021 Plan	
Accrual balance, July 1, 2022	\$ —	\$ —	\$ 295	\$ 1,086	\$ 1,381
Charges, net	—	1,950	—	—	1,950
Cash payments	—	(1,437)	(272)	(100)	(1,809)
Accrual balance, September 30, 2022	—	513	23	986	1,522
Charges, net	928	—	—	—	928
Cash payments	(452)	(377)	—	(149)	(978)
Accrual balance, December 30, 2022	476	136	23	837	1,472
Charges, net	—	—	(23)	—	(23)
Cash payments	(75)	—	—	(490)	(565)
Accrual balance, March 31, 2023	\$ 401	\$ 136	\$ —	\$ 347	\$ 884

As of March 31, 2023, the accrual balance of \$0.9 million was in short-term restructuring liabilities on our unaudited condensed consolidated balance sheets. Included in the above plans for which we were carrying a provision were positions identified for termination that have not been executed from a restructuring perspective.

Q2 2023 Plan

During the second quarter of fiscal 2023, our Board of Directors approved a restructuring plan, (the “Q2 2023 Plan”) which is anticipated to generate cost savings from the elimination of six roles. The Q2 2023 plan is expected to be implemented through the end of first half of fiscal 2024.

Q1 2023 Plan

During the first quarter of fiscal 2023, our Board of Directors approved a restructuring plan, (the “Q1 2023 Plan”) from the acquisition of Redline Communications, Inc. (“Redline”). The Q1 2023 Plan, which is anticipated to generate cost saving on integration of Redline, entails a reduction in force of approximately 20 employees due to integrating work into existing Aviat teams. The Q1 2023 Plan is expected to be implemented through the end of fiscal 2023.

Q4 2022 Plan

During the fourth quarter of fiscal 2022, our Board of Directors approved a restructuring plan (the “Q4 2022 Plan”) to restructure specific groups to optimize skill sets and align structure to execute on strategic deliverables. The Q4 2022 Plan was completed during third quarter of fiscal 2023 with a reduction in force of approximately 11 employees with a certain number of positions being consolidated.

Fiscal 2021 Plan

During the third quarter of fiscal 2021, our Board of Directors approved restructuring plans (the “Fiscal 2021 Plan”) to continue to reduce our operating costs and improve profitability as part of our transformational initiative to optimize our business model and increase efficiencies. We recorded restructuring charges of \$2.4 million related to the Fiscal 2021 Plan in fiscal 2021. The Fiscal 2021 Plan was anticipated to entail a reduction in force of approximately 30 employees and will be completed through the end of fiscal 2023, with a certain number of positions being consolidated and/or relocated.

Note 10. Acquisition

In the first quarter of fiscal 2023, we completed the acquisition of Redline, a leading provider of mission-critical data infrastructure. Acquiring Redline allows Aviat to expand its Private Networks Offering with Private LTE/5G, Unlicensed Wireless Access Solutions, by creating an integrated end-to-end offering for wireless access and transport in the Private Networks segment, leveraging Aviat's sales channel to address a large dollar Private LTE/5G addressable market and increasing Aviat's reach in mission-critical industrial Private Networks.

The consideration paid by Aviat for this all-cash acquisition was \$20.4 million. Cash acquired as part of acquisition was \$4.6 million for total net consideration of \$15.8 million. A summary of the preliminary allocation, pursuant to the completion of purchase price allocation, of the total purchase consideration is as follows:

(In thousands)	Purchase consideration	Net tangible assets acquired	Purchased intangible assets	Goodwill
Redline	\$ 20,411	\$ 8,171	\$ 7,290	\$ 4,950

The following table presents details of our intangible assets:

(In thousands except for useful life)

Goodwill				\$ 4,950
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	Useful life in Years	Gross	Accumulate amortization	Net
Purchased intangible with finite lives:				
Patents	11	\$ 630	\$ (43)	\$ 587
Customer relationship	15	5,500	(275)	5,225
Trade names	16	1,160	(54)	1,106
Total purchased intangible assets with finite lives		\$ 7,290	\$ (372)	\$ 6,918

Amortization of purchased intangible assets for the nine months ended March 31, 2023 was \$0.4 million included in operating expenses. There were no impairment charges for the three or nine months ended March 31, 2023.

Pro forma results of operations for this acquisition have not been presented because the effects on revenue and net income were not material to our historic consolidated financial statements.

The estimated future amortization expense of intangible assets with finite lives as of March 31, 2023 is as follows:

	Amount	
	(In thousands)	
Remainder of 2023	\$	124
2024		496
2025		496
2026		496
2027		496
Thereafter		4,810
Total	\$	6,918

Note 11. 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 and certain jurisdictions where we cannot recognize tax benefit on current losses. During interim periods, we accrue tax expenses for jurisdictions that are anticipated to be profitable for fiscal 2023.

The determination of our income taxes for the nine months ended March 31, 2023 and April 1, 2022 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 nine months ended March 31, 2023 was primarily due to tax expense related to U.S. and profitable foreign subsidiaries, including tax expense associated with our acquisition of Redline in July 2022 and subsequent restructuring impact. The tax expense for the nine months ended April 1, 2022 was primarily due to tax expense related to U.S. and profitable foreign subsidiaries.

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, Ghana, Kenya, Nigeria, and Saudi Arabia. The earliest years for these jurisdictions are as follows: U.S. - 2003; Singapore - 2015; Ghana - 2016; Kenya - 2018; Nigeria - 2006; and Saudi Arabia - 2019.

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 nine months ended March 31, 2023 and April 1, 2022.

On March 11, 2021, the U.S. enacted the American Rescue Plan Act of 2021 (“ARPA”) which expands Section 162(m) to cover the next five most highly compensated employees for the taxable year, in addition to the “covered employees” effective for taxable years beginning after December 31, 2026. We continue to examine the elements of the ARPA and the impact they may have on our future business.

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022 (“IRA”) which includes a new corporate alternative minimum tax of 15% on adjusted financial statement income of corporations with profits greater than \$1 billion, effective for taxable years beginning after December 31, 2022, and a 1% excise tax on stock repurchases by public corporations after December 31, 2022. We will continue to evaluate the applicability and effect of the IRA as more guidance is issued.

Note 12. Net Income Per Share of Common Stock

The following table presents the computation of basic and diluted net income per share:

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Numerator:				
Net income	\$ 4,889	\$ 6,029	\$ 8,189	\$ 16,627
Denominator:				
Weighted-average shares outstanding, basic	11,413	11,173	11,319	11,172
Effect of potentially dilutive equivalent shares	471	588	510	676
Weighted-average shares outstanding, diluted	11,884	11,761	11,829	11,848
Net income per share of common stock outstanding:				
Basic	\$ 0.43	\$ 0.54	\$ 0.72	\$ 1.49
Diluted	\$ 0.41	\$ 0.51	\$ 0.69	\$ 1.40

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:

(Shares in thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Stock options	211	121	189	112
Restricted stock units and performance stock units	25	53	20	45
Total shares of common stock excluded	236	174	209	157

Note 13. 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. We currently rely on a few vendors for substantially all of our inventory purchases. As of March 31, 2023, we had outstanding purchase obligations with our suppliers or contract manufacturers of \$47.6 million. In addition, we had contractual obligations of approximately \$3.9 million associated with software licenses as of March 31, 2023.

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 March 31, 2023, 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 March 31, 2023, we had commercial commitments of \$62.8 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.

The following table presents details of our commercial commitments:

(In thousands)	March 31, 2023	
Letters of credit	\$	3,040
Bonds		59,760
	\$	<u>62,800</u>

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 March 31, 2023, 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 March 31, 2023, 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. 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. 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 as of March 31, 2023. 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.

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 without limitation 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;*
- *disruptions relating to the ongoing conflict between Russia and Ukraine;*
- *continued price and margin erosion as a result of increased competition in the microwave transmission industry;*
- *our ability to realize the anticipated benefits of any proposed or recent acquisitions within the anticipated timeframe or at all, including the risk that proposed or recent acquisitions will not be integrated successfully;*
- *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;*
- *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;*
- *our ability to implement our stock repurchase program or that it will enhance long-term stockholder value; and*
- *the impact of adverse developments affecting the financial services industry, including events or concerns involving liquidity, defaults or non-performance by financial institutions.*

Other factors besides those listed here could also adversely affect us. See “Item 1A. Risk Factors” in our fiscal 2022 Annual Report on Form 10-K filed with the SEC on September 14, 2022 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 2023 and 2022 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 June 30, 2023 is referred to as “fiscal 2023” or “2023” and our fiscal year ended July 1, 2022 is referred to as “fiscal 2022” or “2022.”

Overview

Aviat sells radios, routers, software and services integral to the functioning of data transport networks. We have more than 3,000 customers and significant relationships with global service providers and private network operators. Our manufacturing base in North America consists of a combination of contract manufacturing and assembly and test operated in Austin, Texas by Aviat. Additionally, we utilize a contract manufacturer based in Asia for much of our international equipment demand. Our technology is underpinned by more than 200 patents. We compete on the basis of total cost of ownership, microwave radio expertise and solutions for mission critical communications. We have a global presence.

While supply chain lead-times remain extended and difficult to manage and certain components remain on allocation, we have seen recent improvements in the supply chain environment. The impact that supply chain constraints had on our ability to fulfill orders for the current quarter was minimal. Depending on the progression of factors such as supply allocations, lead-time trends and our ability to perform field services, we could experience constraints and delays in fulfilling customer orders in future periods. We continually monitor, assess and adapt to the situation to mitigate impacts on our business, supply chain and customer demand. We expect the potential for these challenges to continue until business and economic activities return to more normal levels worldwide.

We continue to be impacted by inflationary pressures incurred to overcome supply chain and logistical bottlenecks. We will 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.

Business Combination with Redline Communications

On July 5, 2022, Aviat acquired Redline Communications, Inc. (“Redline”), a leading provider of mission-critical data infrastructure. Redline allows Aviat to expand its Private Networks Offering with Private LTE/5G, Unlicensed Wireless Access Solutions, by creating an integrated end-to-end offering for wireless access and transport in the Private Networks segment, leveraging Aviat’s sales channel to address the large Private LTE/5G market and increasing Aviat’s reach in mission-critical industrial Private Networks.

Operations Review

The market for mobile backhaul continued to be our primary addressable market segment globally in the first nine months of fiscal 2023. In North America, we supported 5G and 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 LTE deployments, and 5G 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. 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. Additionally, we operate an e-commerce platform that provides low cost services, a simple experience, and fast delivery to mobile operator and private network customers. 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 September 14, 2022, 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 serve.

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 (3) Latin America and Asia Pacific. Revenue by region for the three and nine months ended March 31, 2023 and April 1, 2022 and the related changes were as follows:

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	March 31, 2023	April 1, 2022	\$ Change	% Change	March 31, 2023	April 1, 2022	\$ Change	% Change
North America	\$ 46,064	\$ 49,042	\$ (2,978)	(6.1)%	\$ 146,961	\$ 151,025	\$ (4,064)	(2.7)%
Africa and the Middle East	19,235	13,123	6,112	46.6 %	44,354	37,360	6,994	18.7 %
Europe	3,871	2,898	973	33.6 %	13,705	8,509	5,196	61.1 %
Latin America and Asia Pacific	14,310	9,453	4,857	51.4 %	50,394	28,644	21,750	75.9 %
Total revenue	\$ 83,480	\$ 74,516	\$ 8,964	12.0 %	\$ 255,414	\$ 225,538	\$ 29,876	13.2 %

Our revenue in North America decreased by \$(3.0) million, or (6.1)%, during the third quarter of fiscal 2023 compared with the same period of fiscal 2022. Revenue in North America decreased by \$(4.1) million, or (2.7)%, during the nine months ended fiscal 2023 compared with the same period of fiscal 2022. The decrease in North America revenue during the three and nine months ended fiscal 2023 were primarily driven by lower tier one product volumes and lower private network volumes partially offset by higher service volume.

Our revenue in Africa and the Middle East increased by \$6.1 million or 46.6% during the third quarter of fiscal 2023 compared with the same period of fiscal 2022. Revenue in Africa and the Middle East increased by \$7.0 million, or 18.7%, during the nine months of fiscal 2023 compared with the same period of fiscal 2022. This increase in revenue during the three and nine months ended fiscal 2023 was primarily driven by increased product sales to mobile and private network operators in the region.

Revenue in Europe increased by \$1.0 million, or 33.6%, for the third quarter of fiscal 2023 compared with the same period of fiscal 2022. Revenue in Europe increased by \$5.2 million, or 61.1%, during the nine months of fiscal 2023 compared with the same period of fiscal 2022. This increase during the three and nine months ended fiscal 2023 was primarily driven by increased sales to mobile operators.

Revenue in Latin America and Asia Pacific increased by \$4.9 million, or 51.4%, during the third quarter of fiscal 2023 compared with the same period of fiscal 2022, and increased by \$21.8 million, or 75.9%, during the first nine months ended fiscal 2023 compared with the same period of fiscal 2022. This increase during the three and nine months ended fiscal 2023 was primarily driven by a key customer win in Asia Pacific and increased product sales to mobile operators in Latin America.

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	March 31, 2023	April 1, 2022	\$ Change	% Change	March 31, 2023	April 1, 2022	\$ Change	% Change
Product sales	\$ 54,811	\$ 52,047	\$ 2,764	5.3 %	\$ 175,473	\$ 156,361	\$ 19,112	12.2 %
Services	28,669	22,469	6,200	27.6 %	79,941	69,177	10,764	15.6 %
Total revenue	\$ 83,480	\$ 74,516	\$ 8,964	12.0 %	\$ 255,414	\$ 225,538	\$ 29,876	13.2 %

Our revenue from product sales increased by \$2.8 million, or 5.3%, for the third quarter of fiscal 2023 compared with the same quarter of fiscal 2022. Our services revenue increased by \$6.2 million, or 27.6%, during the third quarter of fiscal 2023 compared with the same quarter of fiscal 2022.

Our revenue from product sales increased by \$19.1 million, or 12.2%, for the nine months ended fiscal 2023 compared with the same period of fiscal 2022. Our services revenue increased by \$10.8 million, or 15.6%, during the nine months ended fiscal 2023 compared with the same period of fiscal 2022.

Gross Margin

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	March 31, 2023	April 1, 2022	\$ Change	% Change	March 31, 2023	April 1, 2022	\$ Change	% Change
Revenue	\$ 83,480	\$ 74,516	\$ 8,964	12.0 %	\$ 255,414	\$ 225,538	\$ 29,876	13.2 %
Cost of revenue	53,647	46,980	6,667	14.2 %	163,907	143,765	20,142	14.0 %
Gross margin	\$ 29,833	\$ 27,536	\$ 2,297	8.3 %	\$ 91,507	\$ 81,773	\$ 9,734	11.9 %
% of revenue	35.7 %	37.0 %			35.8 %	36.3 %		
Product margin %	34.8 %	38.8 %			36.4 %	37.5 %		
Service margin %	37.6 %	32.7 %			34.5 %	33.5 %		

Gross margin for the third quarter of fiscal 2023 increased by \$2.3 million, or 8.3% compared with the same quarter of fiscal 2022. Gross margin for the first nine months of fiscal 2023, increased by \$9.7 million, or 11.9%. The gross margin improvement was primarily due to higher volume of Private Network and mobile operator business as well as the contribution from the Redline acquisition.

Gross margin as a percentage of product revenue decreased in the third quarter and in the first nine months of fiscal 2023 compared with the prior year periods primarily due to regional and customer mix partially offset by the accretive contribution of the Redline acquisition. Service margin as a percentage of service revenue in the third quarter and in the first nine months of fiscal 2023, increased compared to the same periods in fiscal 2022 due to changes in the stand-alone prices for products and services and the resulting impact on the allocation of the overall transaction price to services.

Research and Development Expenses

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	March 31, 2023	April 1, 2022	\$ Change	% Change	March 31, 2023	April 1, 2022	\$ Change	% Change
Research and development	\$ 6,518	\$ 5,259	\$ 1,259	23.9 %	\$ 18,652	\$ 17,338	\$ 1,314	7.6 %
% of revenue	7.8 %	7.1 %			7.3 %	7.7 %		

Our research and development expenses in the third quarter and first nine months of fiscal 2023 increased compared with the same periods of fiscal 2022. The increase was primarily attributable to Redline's research and development program partially offset by the strength of the US Dollar yielded savings compared to the prior year.

Selling and Administrative Expenses

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	March 31, 2023	April 1, 2022	\$ Change	% Change	March 31, 2023	April 1, 2022	\$ Change	% Change
Selling and administrative	\$ 15,842	\$ 14,867	\$ 975	6.6 %	\$ 49,913	\$ 41,304	\$ 8,609	20.8 %
% of revenue	19.0 %	20.0 %			19.5 %	18.3 %		

The \$1.0 million selling and administrative expense increase in the third quarter of fiscal 2023 was driven by the Redline acquisition and variable compensation expenses. The \$8.6 million selling and administrative expense increase for the first nine months of fiscal 2023 was also driven by the Redline acquisition and variable compensation, as well as merger and acquisition related expenses.

Restructuring Charges

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	March 31, 2023	April 1, 2022	\$ Change	% Change	March 31, 2023	April 1, 2022	\$ Change	% Change
Restructuring (recovery) charges	\$ (23)	\$ (72)	\$ 49	*	\$ 2,855	\$ (373)	\$ 3,228	*

* Percentage not meaningful

In the third quarter of fiscal 2023, we completed the Q4 2022 Plan. For the nine months ended fiscal 2023 we recorded restructuring charges related to the Q1 2023 Plan and Q2 2023 Plan partially offset by the completion of the Q4 2022 Plan.

Other Expense/Income, net

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	March 31, 2023	April 1, 2022	\$ Change	% Change	March 31, 2023	April 1, 2022	\$ Change	% Change
Other (income)/expense, net	\$ 428	\$ 175	\$ 253	*	\$ 2,750	\$ 387	\$ 2,363	*

* Percentage not meaningful

Our other (income)/expense, net increased by \$0.3 million and \$2.4 million, in the three and nine months ended fiscal 2023, respectively, compared with the same periods of fiscal 2022 primarily due to loss on sale of Marketable securities and the movement in foreign exchange rates.

Income Taxes

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	March 31, 2023	April 1, 2022	\$ Change	% Change	March 31, 2023	April 1, 2022	\$ Change	% Change
Income before income taxes	\$ 7,068	\$ 7,307	\$ (239)	(3.3)%	\$ 17,337	\$ 23,117	\$ (5,780)	(25.0)%
Provision for income taxes	\$ 2,179	\$ 1,278	\$ 901	70.5 %	\$ 9,148	\$ 6,490	\$ 2,658	41.0 %

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 third quarter of fiscal 2023 was primarily due to the tax expense related to U.S. and profitable foreign subsidiaries. The tax expense for the first nine months of fiscal 2023 was primarily due to the tax expense related to U.S. and profitable foreign subsidiaries, including tax expense associated with our acquisition of Redline in July 2022 and subsequent restructuring impact. See Note 10: Acquisition.

Liquidity, Capital Resources, and Financial Strategies

Sources of Cash

As of March 31, 2023, our total cash and cash equivalents were \$22.5 million. Approximately \$4.6 million, or 20.5%, was held in the United States. The remaining balance of \$17.9 million, or 79.5%, was held by entities outside the United States. Of the amount of cash and cash equivalents held by our foreign subsidiaries on March 31, 2023, \$16.6 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 used in operating activities was \$9.0 million for the first nine months of fiscal 2023, compared to \$10.8 million cash used in operations for the first nine months of fiscal 2022; this difference was primarily related to a net change in Other Assets and Liabilities, Accrued Expenses, Inventories, Advance Payments and Unearned Revenue, partially offset by the net change in Accounts Receivable. Net cash provided by noncash items was \$19.4 million for the first nine months of 2023. The net changes in operating assets and liabilities resulted in a net use of cash of \$36.6 million for the first nine months of fiscal 2023, compared to net use of cash of \$40.0 million for the same period in fiscal 2022.

Changes in operating assets and liabilities resulted in a net use of cash for the first nine months of fiscal 2023 primarily related to Accounts Receivable that fluctuate from period to period, depending on the amount and timing of sales, billing activities and cash collections; and an increase in Accounts Payable, by the timing of payments. The use of cash from assets and liabilities was partially offset by customer Unbilled Receivables and Advance Payments and Unearned Revenue; Accrued Expenses, Inventories and Other Assets and Liabilities.

Investing Activities

Net cash used in investing activities was \$11.7 million and \$1.2 million for the first nine months of fiscal 2023 and 2022, respectively, which consisted of the Redline acquisition and capital expenditures offset by proceeds from the sale of marketable securities.

Financing Activities

Financing cash flows consist primarily of borrowings and repayments of short-term debt, repurchase of stock and proceeds from the sale of shares of common stock through employee equity plans. Net cash provided by financing activities was \$6.2 million for the first nine months of fiscal 2023, primarily from cash proceeds from Short-term Debt and the issuance of common stock under employee stock plans of \$1.1 million partially offset by payments for taxes related to settlement of equity awards of \$1.1 million. Net cash used in financing activities was \$4.0 million for the first nine months of fiscal 2022, primarily due to the repurchase of common stock of \$(4.6) million partially offset by cash proceeds from the issuance of common stock under employee stock plans of \$0.9.

As of March 31, 2023, our principal sources of liquidity consisted of \$22.5 million in cash and cash equivalents; \$15.8 million of available credit under our \$25.0 million SVB Credit Facility, which matures on June 28, 2024, 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. Additionally, we have an effective shelf registration statement on Form S-3 allowing us to offer and sell, either individually or in combination, in one or more offerings, up to a total dollar amount of \$200 million of any combination of the securities described in the shelf registration statement or a related prospectus supplement.

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 17, 2021, we entered into Amendment No. 4 to Third Amended and Restated Loan and Security Agreement to extend the maturity date to June 28, 2024. The SVB Credit Facility provides for a \$25.0 million accounts receivable formula-based revolving credit facility that can be borrowed by the U.S. company, with a

\$25.0 million sub-limit that can be borrowed by our U.S. and Singapore entities. 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 all 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 sub-limit. On March 10, 2023, Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation, and the FDIC was appointed as receiver and Silicon Valley Bank was subsequently transferred into a new entity, SVB Bridge Bank. Full access to our SVB Bridge Bank deposits and credit facility were restored by March 14, 2023. As of March 31, 2023, available credit under the SVB Credit Facility was \$15.8 million, reflecting the available limit of \$25.0 million less outstanding letters of credit of \$3.0 million. We borrowed \$50.2 million and repaid \$44.0 million against the SVB Credit Facility during the nine months ended March 31, 2023. As of March 31, 2023 there was \$6.2 million of borrowing outstanding.

As of March 31, 2023, we were not in compliance with the affirmative covenant in Section 6.8 of the SVB Credit Facility, as amended, which restricts Aviat from having domestic operating or depository accounts with banks other than SVB. We opened a non-SVB deposit account with Wells Fargo Bank, N.A. in the immediate aftermath of the SVB closure by regulatory authorities on March 10, 2023 so that we could continue receiving customer remittances. We subsequently requested and received a waiver from the lender for this noncompliance. We were in compliance with all other aspects of the credit agreement.

As of March 31, 2023, we had commercial commitments of \$62.8 million outstanding that were not recorded on our unaudited condensed consolidated balance sheets.

Restructuring Payments

We had liabilities for restructuring activities totaling \$0.9 million as of March 31, 2023, which were 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.

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 2022 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 sometimes use foreign exchange forward contracts to hedge forecasted foreign currency transactions relating to sales and purchase transactions. The foreign exchange hedges do not qualify as cash flow hedges. The changes in fair value related to the hedges will be recorded in income or expenses line items on our statements of operations.

From time-to-time, 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 March 31, 2023, we had no forward contracts outstanding.

Certain of our international business is transacted in non-U.S. dollar currency. As discussed above, from time to time 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 nine months of fiscal 2023 and 2022 was \$0.3 million and \$(1.1) million, respectively, and was included as a component of stockholders' equity. As of March 31, 2023 and July 1, 2022, the cumulative translation adjustment decreased our equity by \$15.8 million and \$16.0 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 SVB Credit Facility.

Exposure on Cash Equivalents

We had \$22.5 million in total cash and cash equivalents as of March 31, 2023. Cash equivalents totaled \$3.7 million as of March 31, 2023 and were comprised of bank certificates of deposit. Cash equivalents investments have been recorded at fair value on our balance sheet. Fair value is measured using inputs that fall into a three-level hierarchy that prioritizes the inputs used to measure fair value based on observability of such inputs. For more information on the fair value measurements of cash equivalents, please refer to "Note 3 Fair Value Measurements of Assets and Liabilities" of the Notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

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 March 31, 2023 was 27 days, and these investments had an average yield of approximately 5% 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 nine months of fiscal 2023, our weighted-average interest rate was 6.96%, and the interest expense on these borrowings was immaterial.

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 the participation of our President and CEO, and Chief Financial Officer ("CFO"), as of March 31, 2023, 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, 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 accumulated and communicated to management, including our CEO and CFO, in a manner that allows for timely decisions regarding required disclosures and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

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 March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls 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 March 31, 2023, please refer to “Legal Proceedings” and “Contingent Liabilities” under “Note 13 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 2022 Annual Report on Form 10-K filed with the SEC on September 14, 2022.

In light of the recent developments in the financial services industry we disclose the additional risk factor below. 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.

Adverse developments affecting the financial services industry, including events or concerns involving liquidity, defaults or non-performance by financial institutions, could adversely affect our business, financial condition or results of operations.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future adversely affect our liquidity. In addition, investor concerns regarding the U.S. or international financial systems could result in less favorable commercial financing terms, including higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources, thereby making it more difficult for us to acquire financing on terms favorable to us, or at all. Any decline in available funding or access to our cash and liquidity resources could, among other things, adversely impact our ability to meet our operating expenses, financial obligations or fulfill our other obligations, result in breaches of our contractual obligations or result in violations of federal or state wage and hour laws. Any of these impacts, or any other impacts resulting from the factors described above or other related or similar factors not described above, could have material adverse impacts on our liquidity and our business, financial condition or results of operations.

In addition, any further deterioration in the macroeconomic economy or financial services industry could lead to losses or defaults by our customers or suppliers, which in turn, could have a material adverse effect on our current and/or projected business operations and results of operations and financial condition. Any customer or supplier bankruptcy or insolvency, or the failure of any customer to make payments when due, or any breach or default by a customer or supplier, or the loss of any significant supplier relationships, could result in material losses to the Company and may have a material adverse impact on our business.

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

During the first nine months of fiscal 2023 we did not repurchase any shares of our common stock in the open market.

In November 2021 our Board of Directors approved a stock repurchase program to purchase up to \$10.0 million of our common stock. As of March 31, 2023, \$8.0 million remains available under the stock repurchase program, and we may choose to suspend or discontinue the repurchase program at any time.

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 Quarterly 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 August 23, 2022, File No. 001-33278)
4.1	Amendment No. 1 to the Amended and Restated Tax Benefit Preservation Plan, dated as of February 28, 2023, 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 March 1, 2023, File No. 001-33278)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief 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
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	Filed herewith.
**	Furnished herewith.

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: May 3, 2023

By: /s/ David M. Gray
David M. Gray
Senior Vice President and Chief Financial Officer (duly authorized officer)

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

I, Peter A. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023, 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: May 3, 2023

/s/ Peter A. Smith

Name: Peter A. Smith

Title: President and Chief Executive Officer

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

I, David M. Gray, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023, 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: May 3, 2023

/s/ David M. Gray

Name: David M. Gray

Title: Senior Vice President and Chief Financial Officer

**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 March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Peter A. Smith, President and Chief Executive Officer of Aviat Networks, and David M. Gray, Senior Vice President and 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:
May 3, 2023

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

Date:
May 3, 2023

/s/ David M. Gray
Name: David M. Gray
Title: Senior Vice President and Chief Financial Officer