

**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 April 1, 2022

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 29, 2022 was 11,166,918.

AVIAT NETWORKS, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarterly Period Ended April 1, 2022
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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)	April 1, 2022	July 2, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 31,296	\$ 47,942
Accounts receivable, net	76,150	48,135
Unbilled receivables	45,700	37,521
Inventories	28,669	23,436
Customer service inventories	1,807	1,431
Assets held for sale	—	2,218
Other current assets	12,984	9,556
Total current assets	196,606	170,239
Property, plant and equipment, net	9,522	11,701
Deferred income taxes	98,002	103,467
Right of use assets	3,196	3,816
Marketable securities	2,515	—
Other assets	9,841	8,430
TOTAL ASSETS	\$ 319,682	\$ 297,653
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 40,634	\$ 32,405
Accrued expenses	25,392	28,154
Short-term lease liabilities	565	769
Advance payments and unearned revenue	38,066	32,304
Restructuring liabilities	999	2,737
Total current liabilities	105,656	96,369
Unearned revenue	7,604	8,592
Long-term lease liabilities	2,786	3,223
Other long-term liabilities	324	356
Reserve for uncertain tax positions	5,396	5,164
Deferred income taxes	586	614
Total liabilities	122,352	114,318
Commitments and contingencies (Note 12)		
Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized, 11,166,918 shares issued and outstanding at April 1, 2022; 11,153,445 shares issued and outstanding at July 2, 2021	112	112
Treasury stock	(5,398)	(787)
Additional paid-in-capital	821,976	818,939
Accumulated deficit	(603,975)	(620,602)
Accumulated other comprehensive loss	(15,385)	(14,327)
Total equity	197,330	183,335
TOTAL LIABILITIES AND EQUITY	\$ 319,682	\$ 297,653

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	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
Revenues:				
Revenue from product sales	\$ 52,047	\$ 45,246	\$ 156,361	\$ 136,401
Revenue from services	22,469	21,158	69,177	66,824
Total revenues	74,516	66,404	225,538	203,225
Cost of revenues:				
Cost of product sales	31,850	26,456	97,789	81,823
Cost of services	15,130	14,370	45,976	44,666
Total cost of revenues	46,980	40,826	143,765	126,489
Gross margin	27,536	25,578	81,773	76,736
Operating expenses:				
Research and development expenses	5,259	5,275	17,338	15,541
Selling and administrative expenses	14,867	15,106	41,304	41,555
Restructuring (recovery) charges	(72)	1,162	(373)	1,162
Total operating expenses	20,054	21,543	58,269	58,258
Operating income	7,482	4,035	23,504	18,478
Other expense (income), net	175	(128)	387	(201)
Income before income taxes	7,307	4,163	23,117	18,679
Provision for (benefit from) income taxes	1,278	(90,568)	6,490	(88,629)
Net income	\$ 6,029	\$ 94,731	\$ 16,627	\$ 107,308
Net income per share of common stock outstanding:				
Basic	\$ 0.54	\$ 8.49	\$ 1.49	\$ 9.76
Diluted	\$ 0.51	\$ 8.00	\$ 1.40	\$ 9.31
Weighted-average shares outstanding:				
Basic	11,173	11,152	11,172	10,994
Diluted	11,761	11,842	11,848	11,532

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	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
Net income	\$ 6,029	\$ 94,731	\$ 16,627	\$ 107,308
Other comprehensive (loss) income:				
Net change in cumulative translation adjustments	(786)	(284)	(1,058)	314
Other comprehensive (loss) income	(786)	(284)	(1,058)	314
Comprehensive income	\$ 5,243	\$ 94,447	\$ 15,569	\$ 107,622

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended	
	April 1, 2022	April 2, 2021
Operating Activities		
Net income	\$ 16,627	\$ 107,308
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of property, plant and equipment	3,444	4,016
(Recoveries) Provision for uncollectible receivables	(56)	46
Share-based compensation	2,464	2,154
Deferred tax assets, net	5,437	(89,732)
Charges for inventory and customer service inventory write-downs	1,140	1,148
(Gain) loss on disposition of property, plant and equipment, net	(66)	6
Noncash lease expense	620	581
Net gain on marketable securities	(23)	—
Restructuring (recoveries) charges	(373)	1,162
Changes in operating assets and liabilities:		
Accounts receivable	(28,252)	(3,507)
Unbilled receivables	(8,446)	(15,389)
Inventories	(5,634)	(8,365)
Customer service inventories	(1,061)	(684)
Accounts payable	7,934	5,400
Accrued expenses	(569)	(249)
Advance payments and unearned revenue	4,719	12,077
Income taxes payable or receivable	(1,400)	(317)
Other assets and liabilities	(6,652)	(818)
Change in lease liabilities	(641)	(650)
Net cash (used in) provided by operating activities	(10,788)	14,187
Investing Activities		
Payments for acquisition of property, plant and equipment	(1,028)	(2,399)
Purchase of marketable securities	(2,492)	—
Proceeds from sale of asset held for sale	2,284	—
Net cash used in investing activities	(1,236)	(2,399)
Financing Activities		
Repayments of borrowings	—	(9,000)
Payments for repurchase of common stock - treasury shares	(4,611)	(458)
Payments for taxes related to net settlement of equity awards	(358)	(167)
Proceeds from issuance of common stock under employee stock plans	931	1,889
Net cash used in financing activities	(4,038)	(7,736)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(663)	140
Net (decrease) increase in cash, cash equivalents, and restricted cash	(16,725)	4,192
Cash, cash equivalents, and restricted cash, beginning of period	48,198	41,872
Cash, cash equivalents, and restricted cash, end of period	\$ 31,473	\$ 46,064

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

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
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

Three Months Ended April 2, 2021

(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 January 1, 2021	11,119,536	\$ 111	\$ —	\$ 816,988	\$ (718,164)	\$ (14,371)	\$ 84,564
Net income	—	—	—	—	94,731	—	94,731
Other comprehensive loss, net of tax	—	—	—	—	—	(284)	(284)
Issuance of common stock under employee stock plans	54,324	1	—	401	—	—	402
Shares withheld for taxes related to vesting of equity awards	(1,366)	—	—	1	—	—	1
Stock repurchase	(8,300)	—	(458)	—	—	—	(458)
Share-based compensation	—	—	—	765	—	—	765
Balance as of April 2, 2021	11,164,194	\$ 112	\$ (458)	\$ 818,155	\$ (623,433)	\$ (14,655)	\$ 179,721

Nine Months Ended April 1, 2022

(In thousands, except share amounts)	Common Stock						
	Shares	\$ Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
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 income, 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

Nine Months Ended April 2, 2021

(In thousands, except share amounts)	Common Stock						
	Shares	\$ Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance as of July 3, 2020	10,792,674	\$ 108	\$ —	\$ 814,283	\$ (730,741)	\$ (14,969)	\$ 68,681
Net income	—	—	—	—	107,308	—	107,308
Other comprehensive loss, net of tax	—	—	—	—	—	314	314
Issuance of common stock under employee stock plans	393,354	4	—	1,885	—	—	1,889
Shares withheld for taxes related to vesting of equity awards	(13,534)	—	—	(167)	—	—	(167)
Stock repurchase	(8,300)	—	(458)	—	—	—	(458)
Share-based compensation	—	—	—	2,154	—	—	2,154
Balance as of April 2, 2021	11,164,194	\$ 112	\$ (458)	\$ 818,155	\$ (623,433)	\$ (14,655)	\$ 179,721

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AVIAT NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. The Company and Basis of Presentation

The Company

Aviat Networks, Inc. (the “Company,” “we,” “us,” and “our”) designs, manufactures, and sells a range of wireless networking solutions and services to mobile and fixed telephone service providers, private network operators, government agencies, transportation and utility companies, public safety agencies, and broadcast system operators across the globe. Our products include broadband wireless access base stations and customer premises equipment for fixed and mobile, point-to-point digital microwave radio systems for access, backhaul, trunking, license-exempt applications, supporting new network deployments, network expansion, and capacity upgrades.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information, and we have made estimates, assumptions and judgments affecting the amounts reported in our unaudited condensed consolidated financial statements and the accompanying notes, as discussed in greater detail below. Accordingly, the statements do not include all information and footnotes required by U.S. GAAP for annual consolidated financial statements. In the opinion of our management, such interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows for such periods. The results for the three and nine months ended April 1, 2022 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 2, 2021.

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 April 1, 2022 and the three months ended April 2, 2021 both consisted of 13 weeks. Fiscal year 2022 will be comprised of 52 weeks and will end on July 1, 2022. Fiscal year 2021 was comprised of 52 weeks and ended on July 2, 2021.

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in accordance with U.S. GAAP requires us to make estimates, assumptions and judgments affecting the amounts reported and related disclosures. Estimates are based upon historical factors, current circumstances and the experience and judgment of our management. We evaluate our estimates and assumptions on an ongoing basis and may employ outside experts to assist us in making these evaluations. Changes in such estimates, based on more accurate information, or different assumptions or conditions, may affect amounts reported in future periods. Such estimates affect significant items, including revenue recognition, provision for uncollectible receivables, inventory valuation, valuation allowances for deferred tax assets, uncertainties in income taxes, 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 April 1, 2022 and for the nine months ended April 1, 2022, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended July 2, 2021.

Accounting Standards Adopted

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2019-12, Income Taxes (Topic 740). This guidance simplifies the accounting for income taxes by removing certain

exceptions to the general principles and also simplifies areas such as franchise taxes, step-up in tax basis of goodwill, separate entity financial statements and interim recognition of enactment of tax laws and rate changes. ASU 2019-12 became effective for us in our first quarter of fiscal 2022. The adoption had no material impact on our unaudited condensed consolidated financial statements.

Accounting Standards Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. This guidance provides optional guidance related to reference rate reform, which provides practical expedients for contract modifications and certain hedging relationships associated with the transition from reference rates that are expected to be discontinued. This guidance is applicable for our borrowing instruments, which use LIBOR as a reference rate, and was effective March 12, 2020 through December 31, 2022. The adoption of ASU 2020-04 will not have a material impact on our unaudited condensed consolidated financial statements.

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

Note 2. Balance Sheet Components

Cash, Cash Equivalents, and Restricted Cash

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

(In thousands)	April 1, 2022	July 2, 2021
Cash and cash equivalents	\$ 31,296	\$ 47,942
Restricted cash included in other assets	177	256
Total cash, cash equivalents, and restricted cash in the Statement of Cash Flows	<u>\$ 31,473</u>	<u>\$ 48,198</u>

Accounts Receivable, net

Our net accounts receivable are summarized below:

(In thousands)	April 1, 2022	July 2, 2021
Accounts receivable	\$ 77,484	\$ 50,276
Less: Allowances for collection losses	(1,334)	(2,141)
Total accounts receivable, net	<u>\$ 76,150</u>	<u>\$ 48,135</u>

Inventories

Our inventories are summarized below

(In thousands)	April 1, 2022	July 2, 2021
Finished products	\$ 16,994	\$ 15,409
Raw materials and supplies	11,675	8,027
Total inventories	<u>\$ 28,669</u>	<u>\$ 23,436</u>
Consigned inventories included within raw materials and supplies	<u>\$ 11,098</u>	<u>\$ 6,570</u>

We increased certain levels of inventory during the three and nine months ended April 1, 2022 primarily to mitigate supply chain constraints.

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

We record charges to adjust our inventory and customer service inventory due to excess and obsolete inventory resulting from lower sales forecasts, product transitioning, or discontinuance. The charges during the three and nine months ended April 1, 2022 and April 2, 2021 were classified in cost of product sales as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
Excess and obsolete inventory	\$ 196	\$ 270	\$ 436	\$ 467
Customer service inventory write-downs	286	293	704	681
Total inventory charges	\$ 482	\$ 563	\$ 1,140	\$ 1,148

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 the 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 additional assets held for sale.

Property, Plant and Equipment, net

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

(In thousands)	April 1, 2022	July 2, 2021
Land	\$ 210	\$ 210
Buildings and leasehold improvements	5,910	6,914
Software	21,375	21,370
Machinery and equipment	52,065	51,244
Total property, plant and equipment, gross	79,560	79,738
Less: Accumulated depreciation and amortization	(70,038)	(68,037)
Total property, plant and equipment, net	\$ 9,522	\$ 11,701

Included in the total plant, property and equipment above there were no assets in progress which have not been placed in service as of April 1, 2022 and \$0.3 million as of July 2, 2021. 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	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
Depreciation and amortization	\$ 1,051	\$ 1,355	\$ 3,444	\$ 4,016

Accrued Expenses

Our accrued expenses are summarized below:

(In thousands)	April 1, 2022	July 2, 2021
Accrued compensation and benefits	\$ 8,885	\$ 13
Accrued agent commissions	2,079	2
Accrued warranties	3,223	3
Other	11,205	9
Total accrued expenses	<u>\$ 25,392</u>	<u>\$ 28</u>

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	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
Balance as of the beginning of the period	\$ 3,198	\$ 3,315	\$ 3,228	\$ 3
Warranty provision recorded during the period	402	469	1,242	1
Consumption during the period	(377)	(491)	(1,247)	(1)
Balance as of the end of the period	<u>\$ 3,223</u>	<u>\$ 3,293</u>	<u>\$ 3,223</u>	<u>\$ 3</u>

Advance Payments and Unearned Revenue

Our advance payments and unearned revenue are summarized below:

(In thousands)	April 1, 2022	July 2, 2021
Advance payments	\$ 2,906	\$ 2
Unearned revenue	35,160	29
Total advance payments and unearned revenue	<u>\$ 38,066</u>	<u>\$ 32</u>

Excluded from the balances above are \$7.6 million and \$8.6 million in long-term unearned revenue as of April 1, 2022 and July 2, 2021, 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 April 1, 2022 and July 2, 2021 were as follows:

(In thousands)	April 1, 2022		July 2, 2021		Valuation Inputs
	Fair Value		Fair Value		
Assets:					
Cash and cash equivalents:					
Money market funds	\$	8,778	\$	26,847	Level 1
Bank certificates of deposit	\$	3,475	\$	3,288	Level 2
Marketable securities	\$	2,515	\$	—	Level 1

We classify items within Level 1 if quoted prices are available in active markets. Our Level 1 items mainly are money market funds. As of April 1, 2022 and July 2, 2021, these money market funds were valued at \$1.00 net asset value per share.

Our marketable securities are included in non-current assets on our balance sheet as we intend to hold for longer than 12 months. These marketable securities are publicly traded stock measured at fair value and classified within Level 1.

We classify items in Level 2 if the observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes, or alternative pricing sources are available with reasonable levels of price transparency. Our bank certificates of deposit and foreign exchange forward contracts are classified within Level 2.

As of April 1, 2022 and July 2, 2021, 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 2022 and 2021, 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 April 1, 2022.

The following summarizes our lease costs (in thousands):

	Three Months Ended		Nine Months Ended	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
	(In thousands)		(In thousands)	
Operating lease costs	\$ 251	\$ 295	\$ 813	\$ 909
Short-term lease costs	\$ 623	\$ 506	\$ 1,823	\$ 1,323
Variable lease costs	\$ 64	\$ 93	\$ 138	\$ 255
Total lease costs	\$ 938	\$ 894	\$ 2,774	\$ 2,487

The following summarizes our lease term and discount rate for the nine months ended April 1, 2022:

Weighted average remaining lease term	7.8 years
Weighted average discount rate	5.8 %

As of April 1, 2022, our future minimum lease payments under all non-cancelable operating leases with an initial term in excess of one year were as follows (in thousands):

	Amount	
	(In thousands)	
Remainder of 2022	\$	163
2023		711
2024		593
2025		612
2026		552
Thereafter		1,701
Total lease payments		4,332
Less: interest		(981)
Present value of lease liabilities	\$	<u>3,351</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. 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 April 1, 2022, available credit under the SVB Credit Facility was \$21.7 million, reflecting the lower available limit of \$25.0 million less outstanding letters of credit of \$3.3 million. As of July 3, 2020, our outstanding debt balance under the SVB Credit Facility, classified as a current liability, was \$9.0 million, and the interest rate was 3.75%. We repaid the outstanding debt balance in July 2020. We have not borrowed against the SVB Credit Facility during the nine months ended April 1, 2022 and there were no borrowing outstanding as of April 1, 2022 or July 2, 2021.

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 April 1, 2022, we were in compliance with the quarterly financial covenants contained in the SVB Credit Facility, as amended.

We also obtained an uncommitted short-term line of credit of \$0.4 million from a bank in New Zealand to support the operations of our New Zealand subsidiary. This line of credit provides for up to \$0.3 million in short-term advances at various interest rates, all of which was available as of April 1, 2022 and July 2, 2021. The line of credit also provides for the issuance of standby letters of credit and company credit cards, of which none was outstanding as of April 1, 2022 and July 2, 2021. This line of credit may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Note 6. Revenue Recognition

Contract Balances, Performance Obligations, and Backlog

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

	April 1, 2022	July 2, 2021
Contract Assets		
Accounts receivable, net	\$ 76,150	\$ 48,135
Unbilled receivables	\$ 45,700	\$ 37,521
Capitalized commissions	\$ 1,304	\$ 1,720
Contract Liabilities		
Advance payments and unearned revenue	\$ 38,066	\$ 32,304
Unearned revenue, long-term	\$ 7,604	\$ 8,592

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 April 1, 2022, we had \$45.7 million in advance payments and unearned revenue and long-term unearned revenue, of which approximately 18% is expected to be recognized as revenue in the remainder of fiscal 2022 and the balance thereafter. During the three and nine months ended April 1, 2022 we recognized \$5.3 million and \$18.8 million, respectively, of revenue which was included in advance payments and unearned revenue at July 2, 2021.

Remaining Performance Obligations

The aggregate amount of transaction price allocated to our unsatisfied (or partially unsatisfied) performance obligations was approximately \$82.8 million at April 1, 2022. Of this amount, we expect to recognize approximately 70% as revenue during the next 12 months, with the remaining amount to be recognized as revenue within two to five years.

Note 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 April 1, 2022 and April 2, 2021 was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
North America	\$ 49,042	\$ 42,021	\$ 151,025	\$ 136,678
Africa and the Middle East	13,123	9,904	37,360	31,138
Europe	2,898	3,280	8,509	7,053
Latin America and Asia Pacific	9,453	11,199	28,644	28,356
Total revenue	\$ 74,516	\$ 66,404	\$ 225,538	\$ 203,225

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	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
	Motorola Solutions, Inc.	12.0 %	*	13.0 %
A U.S. State Government Customer	*	12.5 %	*	*
Mobile Telephone Networks Group (MTN Group)	13.0 %	*	10.0 %	*

* Less than 10.0%

Customer accounting for 10% or more of our accounts receivable were as follows:	April 1, 2022	July 2, 2021
Mobile Telephone Networks Group (MTN Group)	20.0 %	14.0 %

Note 8. Equity

Stock Repurchase Program

During the third quarter of fiscal 2022, we repurchased 65,951 shares of our common stock in the open market for an aggregate purchase price, including commissions, of \$2.0 million. During the nine months ended of fiscal 2022, we repurchased 149,389 shares of our common stock in the open market for an aggregate purchase price, including commission of \$4.6 million. These shares were recorded as treasury stock, and we do not anticipate retiring them.

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 April 1, 2022, \$8.0 million remains available and we may choose to suspend or discontinue the repurchase program at any time.

Stock Incentive Programs

As of April 1, 2022, we had one 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 annually generally vest on the day before the annual stockholders' meeting.

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

During the nine months ended April 1, 2022, we granted 70,531 restricted stock units, 46,533 market-based stock units and 114,012 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	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
By Expense Category:				
Cost of revenues	\$ 101	\$ 114	\$ 271	\$ 279
Research and development	5	82	103	179
Selling and administrative	734	569	2,090	1,696
Total share-based compensation expense	\$ 840	\$ 765	\$ 2,464	\$ 2,154
By Types of Award:				
Options	\$ 139	\$ 179	\$ 434	\$ 569
Restricted and performance stock awards and units	701	586	2,030	1,585
Total share-based compensation expense	\$ 840	\$ 765	\$ 2,464	\$ 2,154

As of April 1, 2022, there was approximately \$1.1 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 1.3 years. As of April 1, 2022, there was \$4.8 million of total unrecognized compensation expense related to non-vested stock awards which is expected to be recognized over a weighted-average period of 1.3 years.

Note 9. Restructuring Activities

The following table summarizes our restructuring-related activities:

(In thousands)	Severance and Benefits		Facilities and Other	Total
	Fiscal 2021 Plan	Prior Years' Plan	Fiscal 2015-2016 Plan	
Accrual balance, July 2, 2021	\$ 2,209	\$ 280	\$ 248	\$ 2,737
Charges, net	628	31	—	659
Cash payments	(326)	(49)	—	(375)
Foreign exchange impact	(7)	—	(6)	(13)
Accrual balance, October 1, 2021	2,504	262	242	3,008
Recovery, net	(526)	(198)	(236)	(960)
Cash payments	(253)	—	—	(253)
Foreign exchange impact	(2)	—	(6)	(8)
Accrual balance, December 31, 2021	1,723	64	—	1,787
Recovery, net	(72)	—	—	(72)
Cash payments	(702)	—	—	(702)
Foreign exchange impact	(14)	—	—	(14)
Accrual balance, April 1, 2022	\$ 935	\$ 64	\$ —	\$ 999

As of April 1, 2022, the accrual balance of \$1.0 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.

Fiscal 2021 Plan

During the third quarter of fiscal 2021, our Board of Directors approved a restructuring plan (the “Fiscal 2021 Plan”) in order to continue to reduce operating costs and improve profitability as part of our transformational initiative to optimize our business model and increase efficiencies. The Fiscal 2021 Plan was anticipated to entail a reduction in force of approximately 30 employees to be implemented through the end of fiscal year 2022, with a certain number of positions being consolidated and/or relocated.

Prior Years’ Plan

Activities under the Fiscal 2015-2016 Plan primarily included reductions in workforce across the Company, but primarily in operations outside the United States. Payments related to the accrued restructuring liability balance for this plan are complete. The Q4 2020 Plan was completed in the second quarter of fiscal 2022.

Note 10. Income Taxes

Our effective tax rate varies from the U.S. federal statutory rate of 21% primarily due to results of foreign operations that are subject to income taxes at different statutory rates 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 2022.

The determination of our income taxes for the nine months ended April 1, 2022 and April 2, 2021 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 April 1, 2022 was primarily due to tax expense related to U.S. and profitable subsidiaries. The tax benefit for the nine months ended April 2, 2021 was primarily due to the release of valuation allowance on our U.S. federal and state deferred tax assets

We have a number of open income tax audits covering various tax years, which vary from jurisdiction to jurisdiction. Our major tax jurisdictions that are open and subject to potential audits include the U.S., Singapore, Nigeria, Saudi Arabia and the Ivory Coast. The earliest years for these jurisdictions are as follows: U.S. - 2003; Singapore - 2015; Nigeria - 2006; Saudi Arabia - 2019, and Ivory Coast - 2017.

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 April 1, 2022 and April 2, 2021.

On December 27, 2020, the U.S. enacted the Consolidated Appropriations Act of 2021 (“CAA”) which extended and expanded certain tax relief measures created by the CARES Act, including, but not limited to, (1) second round of Payroll Protection Program loans, and (2) the Employer Retention Credit for 2021.

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 CAA and ARPA and the impact they may have on our future business.

Note 11. 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	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
Numerator:				
Net income	\$ 6,029	\$ 94,731	\$ 16,627	\$ 107,308
Denominator:				
Weighted-average shares outstanding, basic	11,173	11,152	11,172	10,994
Effect of potentially dilutive equivalent shares	588	690	676	538
Weighted-average shares outstanding, diluted	11,761	11,842	11,848	11,532
Net income per share of common stock outstanding:				
Basic	\$ 0.54	\$ 8.49	\$ 1.49	\$ 9.76
Diluted	\$ 0.51	\$ 8.00	\$ 1.40	\$ 9.31

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:

(In thousands)	Three Months Ended		Nine Months Ended	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
Stock options	121	8	112	4
Restricted stock units and performance stock units	53	—	45	2
Total shares of common stock excluded	174	8	157	6

Note 12. Commitments and Contingencies***Purchase Orders and Other Commitments***

From time to time in the normal course of business, we may enter into purchasing agreements with our suppliers that require us to accept delivery of, and remit full payment for, finished products that we have ordered, finished products that we requested be held as safety stock, and work in process started on our behalf, in the event we cancel or terminate the purchasing agreement. Because these agreements do not specify fixed or minimum quantities, do not specify minimum or variable price provisions, and do not specify the approximate timing of the transaction, and we have no present intention to cancel or terminate any of these agreements, we currently do not believe that we have any future liability under these agreements. As of April 1, 2022, we had outstanding purchase obligations with our suppliers or contract manufacturers of \$40.1 million. In addition, we had contractual obligations of approximately \$3.7 million associated with software licenses as of April 1, 2022.

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 April 1, 2022, 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 April 1, 2022, we had commercial commitments of \$65.1 million outstanding that were not recorded on our unaudited condensed consolidated balance sheets.

We do not believe, based on historical experience and information currently available, that it is probable that any significant amounts will be required to be paid on these performance guarantees in the future.

Indemnifications

Under the terms of substantially all of our license agreements, we have agreed to defend and pay any final judgment against our customers arising from claims against such customers that our products infringe the intellectual property rights of a third party. As of April 1, 2022, 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 April 1, 2022, we had not recorded any liabilities related to these indemnifications.

Legal Proceedings

We are subject from time to time to disputes with customers concerning our products and services. In May 2016, we received notification of a claim for damages from a customer alleging that certain of our products were defective which we settled with an immaterial amount during the third quarter of 2021.

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. We have accrued an immaterial amount representing the estimated probable loss for which we would settle the matter. We currently cannot form an estimate of the range of loss in excess of our amounts already accrued. If the outcome of this matter is greater than the current immaterial amount accrued, we intend to dispute it vigorously.

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

COVID-19

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

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

Our gross margin in the current quarter was negatively impacted by inflationary pressures incurred to overcome supply chain and logistical bottlenecks. These were partially offset by price increases and surcharges. We continue to monitor, assess and adapt to the situation and prepare for implications to our business, supply chain and customer demand. We expect these challenges to continue until business and economic activities return to more normal levels.

Note 13. Subsequent Events

We announced on April 13, 2022 that we have entered into an arrangement agreement under which we will acquire all outstanding shares of Redline Communications Group, Inc. (“Redline”) (TSX: RDL), for CAD\$0.90 per common share (approximately USD\$0.71 per share), in an all-cash transaction valued at approximately CAD \$16.2 million (approximately USD \$12.9 million). We expect to fully fund the acquisition from cash on hand. Subject to customary closing conditions and necessary regulatory approvals, the transaction is expected to close within four months.

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;*
- *continued price and margin erosion as a result of increased competition in the microwave transmission industry;*
- *the impact of the volume, timing, and customer, product, and geographic mix of our product orders;*
- *our ability to meet financial covenant requirements which could impact, among other things, our liquidity;*
- *the timing of our receipt of payment for products or services from our customers;*
- *our ability to meet projected new product development dates or anticipated cost reductions of new products;*
- *our suppliers' inability to perform and deliver on time as a result of their financial condition, component shortages, the effects of COVID-19 or other supply chain constraints;*
- *the effects of inflation and the timing and extent of changes in the prices and overall demand for and availability of our inputs;*
- *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; and*
- *our ability to implement our stock repurchase program or that it will enhance long-term stockholder value.*

Other factors besides those listed here could also adversely affect us. See “Item 1A. Risk Factors” in our fiscal 2021 Annual Report on Form 10-K filed with the SEC on August 25, 2021 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 2022 and 2021 Results

The following Management’s Discussion and Analysis (“MD&A”) is intended to help the reader understand our results of operations and financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and the accompanying notes. In the discussion herein, our fiscal year ending July 1, 2022 is referred to as “fiscal 2022” or “2022” and our fiscal year ended July 2, 2021 is referred to as “fiscal 2021” or “2021.”

On April 7, 2021, we effected a two-for-one split in the form of a stock dividend to shareholders of record as of April 1, 2021.

Overview

We anticipate growth in revenue in fiscal 2022. We continue to have a backlog entering the remaining quarters of fiscal 2022 and we anticipate continuing our strong momentum across all verticals. We have made inroads into the U.S. rural broadband and wireless internet service provider areas and there is now further evidence of investment to support 5G deployments with our U.S. service provider customers. We have also seen continued growth in our international regions.

Our gross margin in the current quarter was negatively impacted by inflationary pressures incurred to overcome supply chain and logistical bottlenecks. These were partially offset by price increases and surcharges. We are monitoring, assessing and adapting to the situation and preparing for possible implications to 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.

In March 2020, the World Health Organization characterized the current respiratory illness caused by novel coronavirus disease, known as COVID-19, as a pandemic. The pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the COVID-19 pandemic. The COVID-19 pandemic has had and is likely to continue to have an impact on our operations, supply chains and distribution systems. The COVID-19 pandemic has led to an increase in our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking or requiring. The extent to which the COVID-19 pandemic impacts our business, prospects and results of operations will depend on future developments, which are highly uncertain and cannot be predicted.

with certainty, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, including the ongoing vaccination efforts and how quickly and to what extent normal economic and operating activities can resume. Management is actively monitoring the impact of the COVID-19 pandemic on our financial condition, liquidity, operations, suppliers, industry, and workforce.

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

Operations Review

The market for mobile backhaul continued to be our primary addressable market segment globally in the first nine months of fiscal 2022. 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. We continue to find that our strength in turnkey and after-sale support services is a differentiating factor that wins business for us and enables us to expand our business with existing customers in all markets. However, as disclosed above and in the “Risk Factors” section in Item 1A of our Annual Report on Form 10-K filed with the SEC on August 25, 2021, 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 April 1, 2022 and April 2, 2021 and the related changes were as follows:

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	April 1, 2022	April 2, 2021	\$ Change	% Change	April 1, 2022	April 2, 2021	\$ Change	% Change
North America	\$ 49,042	\$ 42,021	\$ 7,021	16.7 %	\$ 151,025	\$ 136,678	\$ 14,347	10.5 %
Africa and the Middle East	13,123	9,904	3,219	32.5 %	37,360	31,138	6,222	20.0 %
Europe	2,898	3,280	(382)	(11.6)%	8,509	7,053	1,456	20.6 %
Latin America and Asia Pacific	9,453	11,199	(1,746)	(15.6)%	28,644	28,356	288	1.0 %
Total revenue	<u>\$ 74,516</u>	<u>\$ 66,404</u>	<u>\$ 8,112</u>	<u>12.2 %</u>	<u>\$ 225,538</u>	<u>\$ 203,225</u>	<u>\$ 22,313</u>	<u>11.0 %</u>

Our revenue in North America increased by \$7.0 million, or 16.7%, during the third quarter of fiscal 2022 compared with the same period of fiscal 2021. Revenue in North America increased by \$14.3 million, or 10.5%, during the first nine months of fiscal 2022 compared with the same period of fiscal 2021. The increase in North America revenue during the three and nine months of fiscal 2022 was primarily due to an increase in the number of private network projects.

Our revenue in Africa and the Middle East increased by \$3.2 million or 32.5% during the third quarter of fiscal 2022 compared with the same period of fiscal 2021. Revenue in Africa and the Middle East increased by \$6.2 million, or 20.0%, during the first nine months of fiscal 2022 compared with the same period of fiscal 2021. This increase in revenue during the three and nine months of fiscal 2022 was primarily due to increased sales to mobile operators in the region.

Revenue in Europe decreased by \$0.4 million, or 11.6%, for the third quarter of fiscal 2022 compared with the same period of fiscal 2021. Revenue in Europe increased by \$1.5 million, or 20.6%, during the first nine months of fiscal 2022 compared with the same period of fiscal 2021. This increase during the three and nine months of fiscal 2022 was primarily due to increased sales to mobile operators in the region.

Revenue in Latin America and Asia Pacific decreased by \$1.7 million, or 15.6%, during the third quarter of fiscal 2022 compared with the same period of fiscal 2021. This decrease in revenue during the third quarter of fiscal 2022 was primarily due to timing of customer specific order in prior year. Revenue in Latin America and Asia Pacific increased by \$0.3 million, or 1.0%, during the first nine months of fiscal 2022 compared with the same period of fiscal 2021. The increase during the nine months of fiscal 2022 was from increased sales to mobile operator customers.

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	April 1, 2022	April 2, 2021	\$ Change	% Change	April 1, 2022	April 2, 2021	\$ Change	% Change
Product sales	\$ 52,047	\$ 45,246	\$ 6,801	15.0 %	\$ 156,361	\$ 136,401	\$ 19,960	14.6 %
Services	22,469	21,158	1,311	6.2 %	69,177	66,824	2,353	3.5 %
Total revenue	\$ 74,516	\$ 66,404	\$ 8,112	12.2 %	\$ 225,538	\$ 203,225	\$ 22,313	11.0 %

Our revenue from product sales increased by \$6.8 million, or 15.0%, for the third quarter of fiscal 2022 compared with the same quarter of fiscal 2021. Our services revenue increased by \$1.3 million, or 6.2%, during the third quarter of fiscal 2022 compared with the same quarter of fiscal 2021.

Our revenue from product sales increased by \$20.0 million, or 14.6%, for the first nine months of fiscal 2022 compared with the same period of fiscal 2021. Our services revenue increased by \$2.4 million, or 3.5%, during the first nine months of fiscal 2022 compared with the same period of fiscal 2021.

Gross Margin

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	April 1, 2022	April 2, 2021	\$ Change	% Change	April 1, 2022	April 2, 2021	\$ Change	% Change
Revenue	\$ 74,516	\$ 66,404	\$ 8,112	12.2 %	\$ 225,538	\$ 203,225	\$ 22,313	11.0 %
Cost of revenue	46,980	40,826	6,154	15.1 %	143,765	126,489	17,276	13.7 %
Gross margin	\$ 27,536	\$ 25,578	\$ 1,958	7.7 %	\$ 81,773	\$ 76,736	\$ 5,037	6.6 %
% of revenue	37.0 %	38.5 %			36.3 %	37.8 %		
Product margin %	38.8 %	41.5 %			37.5 %	40.0 %		
Service margin %	32.7 %	32.1 %			33.5 %	33.2 %		

Gross margin for the third quarter of fiscal 2022 increased by \$2.0 million, or 7.7% compared with the same quarter of fiscal 2021. Gross margin for the first nine months of fiscal 2022 increased by \$5.0 million, or 6.6%. For the three and nine months of fiscal 2022, gross margin improved over the same period in fiscal 2021 primarily due to higher volume of Private Network business and increased sales through the Aviat Store which serves primarily the Rural Broadband space. Gross margins continue to be pressured by expedite fees and inflation as we work to overcome supply chain issues. However, our pricing actions to offset higher costs continue to gain momentum.

Product margin as a percentage of product revenue decreased in the third quarter and in the first nine months of fiscal 2022 compared with the same period of fiscal 2021 primarily due to increased supply chain costs. Service margin as a percentage of service revenue in the third quarter and in the first nine months of fiscal 2022 compared to the same periods in fiscal 2021 were relatively flat.

Research and Development Expenses

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	April 1, 2022	April 2, 2021	\$ Change	% Change	April 1, 2022	April 2, 2021	\$ Change	% Change
Research and development	\$ 5,259	\$ 5,275	\$ (16)	(0.3)%	\$ 17,338	\$ 15,541	\$ 1,797	11.6 %
% of revenue	7.1 %	7.9 %			7.7 %	7.6 %		

Our research and development expenses increased by \$1.8 million, or 11.6%, in the nine months of fiscal 2022 compared with the same periods of fiscal 2021 primarily due to the increased spend in prior six month period resulting from R&D efforts to design around problematic suppliers and deceleration of grant programs for nine month period to date compared to prior year.

Selling and Administrative Expenses

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	April 1, 2022	April 2, 2021	\$ Change	% Change	April 1, 2022	April 2, 2021	\$ Change	% Change
Selling and administrative	\$ 14,867	\$ 15,106	\$ (239)	(1.6)%	\$ 41,304	\$ 41,555	\$ (251)	(0.6)%
% of revenue	20.0 %	22.7 %			18.3 %	20.4 %		

Our selling and administrative expenses decreased by \$0.2 million, or 1.6%, in the third quarter of fiscal 2022 compared with the same period in fiscal 2021. Our selling and administrative expenses decreased by \$0.3 million, or 0.6%, for the nine months of fiscal 2022 compared with the same period in fiscal 2021. The decrease for the three and nine months of fiscal 2022 compared to comparable period of fiscal 2021 was primarily due to variable compensation.

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	April 1, 2022	April 2, 2021	\$ Change	% Change	April 1, 2022	April 2, 2021	\$ Change	% Change
Restructuring (recovery) charges	\$ (72)	\$ 1,162	\$ (1,234)	(106.2)%	\$ (373)	\$ 1,162	\$ (1,535)	(132.1)%

In the third quarter of fiscal 2022, we recorded restructuring recoveries of \$0.1 million primarily related to the restructuring plan (the "Fiscal 2021 Plan").

As of April 1, 2022, the accrual balance of \$1.0 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.

Other Expense/Income, net

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	April 1, 2022	April 2, 2021	\$ Change	% Change	April 1, 2022	April 2, 2021	\$ Change	% Change
Other expense (income), net	\$ 175	\$ (128)	\$ 303	(236.7)%	\$ 387	\$ (201)	\$ 588	(292.5)%

Our other expenses (income), net increased by \$0.3 million and \$0.6 million, in the three and nine months of fiscal 2022, respectively, compared with the same periods of fiscal 2021 primarily due to the movement in foreign exchange.

Income Taxes

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	April 1, 2022	April 2, 2021	\$ Change	% Change	April 1, 2022	April 2, 2021	\$ Change	% Change
Income before income taxes	\$ 7,307	\$ 4,163	\$ 3,144	75.5 %	\$ 23,117	\$ 18,679	\$ 4,438	23.8 %
Provision for (benefit from) income taxes	\$ 1,278	\$ (90,568)	\$ 91,846	(101.4)%	\$ 6,490	\$ (88,629)	\$ 95,119	(107.3)%

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

The tax expense for the first nine months of fiscal 2022 was primarily due to the tax expense related to U.S. and profitable foreign subsidiaries. The tax benefit for the first nine months of fiscal 2021 was primarily due to the release of valuation allowance on our U.S. federal and state deferred tax assets.

Liquidity, Capital Resources, and Financial Strategies

Sources of Cash

As of April 1, 2022, our total cash and cash equivalents were \$31.3 million. Approximately \$12.2 million, or 39.1%, was held in the United States. The remaining balance of \$19.1 million, or 60.9%, was held by entities outside the United States. Of the amount of cash and cash equivalents held by our foreign subsidiaries on April 1, 2022, \$16.8 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 \$10.8 million for the first nine months of fiscal 2022, compared to \$14.2 million cash provided from operations for the first nine months of fiscal 2021; this difference was primarily related to a net change in Accounts receivable and partially offset by the net change in Accounts payable. Net cash provided by noncash items was \$12.6 million for the first nine months of 2022. The net changes in operating assets and liabilities resulted in a net use of cash of \$40.0 million for the first nine months of fiscal 2022, compared to net use of cash of \$12.5 million for the same period in fiscal 2021.

Changes in operating assets and liabilities resulted in a net use of cash for the first nine months of fiscal 2022 primarily related to Accounts receivable that fluctuate from period to period, depending on the amount, timing of sales and billing activities and cash collections; and an increase in certain levels of inventories primarily to mitigate supply chain constraints. The use of cash from assets and liabilities was partially offset by the timing of payments from Accounts payable and by customer Advance payments and unearned revenue.

Investing Activities

Net cash used in investing activities was \$1.2 million and \$2.4 million for the first nine months of fiscal 2022 and 2021, respectively, which consisted of purchases of marketable securities and acquisition of capital expenditures offset by proceeds from asset held for sale. During the remainder of fiscal year 2022, we expect to spend approximately \$2.0 million for capital expenditures, primarily on equipment for development and manufacturing of new products and IT infrastructure.

Financing Activities

Financing cash flows consist primarily from repayments of short-term debt, repurchase of stock and proceeds from the sale of shares of common stock through employee equity plans. Net cash used in financing activities was \$4.0 million for the first nine months of fiscal 2022, primarily due to repurchase of \$4.6 million of stock which was partially offset by cash proceeds from the issuance of common stock under employee stock plans of \$0.9 million net of payments for taxes related to settlement of equity awards of \$0.4 million. Net cash used in financing activities was \$7.7 million for the first nine months of fiscal 2021, primarily due to \$9.0 million repayment of short-term debt partially offset by cash proceeds from the issuance of common stock under employee stock plans of \$1.9 net of the payments for taxes related to settlement of equity awards of \$0.2 million.

As of April 1, 2022, our principal sources of liquidity consisted of \$31.3 million in cash and cash equivalents; \$21.7 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. As of April 1, 2022, available credit under the SVB Credit Facility was \$21.7 million, reflecting the lower available limit of \$25.0 million less outstanding letters of credit of \$3.3 million. As of July 3, 2020, our outstanding debt balance under the SVB Credit Facility, classified as a current liability, was \$9.0 million, and the interest rate was 3.75%. We repaid the outstanding debt balance in July 2020. We have not borrowed against the SVB Credit Facility during the nine months ended April 1, 2022 and there were no borrowing outstanding as of April 1, 2022 or July 2, 2021.

As of April 1, 2022, we were in compliance with the quarterly financial covenants, as amended, contained in the SVB Credit Facility and there was no amount outstanding under the SVB Credit Facility.

In addition, we have an uncommitted short-term line of credit of \$0.4 million from a bank in New Zealand to support the operations of our subsidiary located there. This line of credit provides for \$0.3 million in short-term advances at various interest rates, all of which was available as of April 1, 2022 and July 2, 2021. The line of credit also provides for the issuance of standby letters of credit and company credit cards, of which none was outstanding as of April 1, 2022 and July 2, 2021. This facility may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Restructuring Payments

We had liabilities for restructuring activities totaling \$1.0 million as of April 1, 2022, 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.

Contractual Obligations

The amounts disclosed in our fiscal 2021 Annual Report on Form 10-K filed with the SEC on August 25, 2021 include our commercial commitments and contractual obligations. During the first nine months of fiscal 2022, no material changes occurred in our contractual obligations to purchase goods and services or to make payments under operating leases or our contingent liabilities on outstanding letters of credit, guarantees, and other arrangements as disclosed in our fiscal 2021 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We consider the following items to qualify as off-balance sheet arrangements:

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

Currently we are not participating in transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, and we do not have any material retained or contingent interest in assets as defined above. As of April 1, 2022, we did not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect our current or future financial condition. In addition, we are not currently a party to any related party transactions that materially affect our results of operations, cash flows or financial condition.

As of April 1, 2022, we had commercial commitments of \$65.1 million.

Please refer to “Note 12 Commitments and Contingencies” of the Notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q for Contractual Obligations and Off-Balance Sheet Arrangements.

Critical Accounting Estimates

For information about our critical accounting estimates, see the “Critical Accounting Estimates” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our fiscal 2021 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Exchange Rate Risk

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

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

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

As of April 1, 2022, we had multiple forward contracts in one foreign currency outstanding as follows:

Currency	Notional Contract Amount	Notional Contract Amount
	(Local Currency)	(USD)
	(In thousands)	
Euro	4,500	\$ 5,032

Net foreign exchange income (loss) recorded in our unaudited condensed consolidated statements of operations during the three and nine months ended April 1, 2022 and April 2, 2021 was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	April 1, 2022	April 2, 2021	April 1, 2022	April 2, 2021
Amount included in costs of revenues	\$ —	\$ (189)	\$ —	\$ 666
Amount included in other expense/(income), net	\$ 240	\$ —	\$ 513	\$ —

A 10% adverse change in currency exchange rates for our foreign currency derivatives held as of April 1, 2022 would have an impact of approximately \$0.5 million on the fair value of such instruments.

Certain of our international business is transacted in non-U.S. dollar currency. As discussed above, we utilize foreign currency hedging instruments to minimize the currency risk of international transactions. The impact of translating the assets and liabilities of foreign operations to U.S. dollars for the first nine months of fiscal 2022 and 2021 was \$(1.1) million and \$0.3 million, respectively, and was included as a component of stockholders’ equity. As of April 1, 2022 and July 2, 2021, the cumulative translation adjustment decreased our equity by \$15.4 million and \$14.3 million, respectively.

Interest Rate Risk

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

Exposure on Cash Equivalents

We had \$31.3 million in total cash and cash equivalents as of April 1, 2022. Cash equivalents totaled \$12.3 million as of April 1, 2022 and were comprised of money market funds and bank certificates of deposit. Cash equivalents investments have been recorded at fair value on our balance sheet. 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 April 1, 2022 was 27 days, and these investments had an average yield of approximately 4.9% 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 2022, our weighted-average interest rate was 3.50%, 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 April 1, 2022, 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 April 1, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Management is actively monitoring the impact of the COVID-19 pandemic on our financial condition, liquidity, operations, suppliers, industry, and workforce. Additionally we have undertaken measures to protect our employees, suppliers, and customers, including encouraging, and in many cases requiring employees to work remotely as appropriate. We have also modified some of our controls procedures but those changes have not been material.

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 April 1, 2022, please refer to “Legal Proceedings” and “Contingent Liabilities” under “Note 12 Commitments and Contingencies” of the Notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, which are incorporated into this item by reference.

Item 1A. Risk Factors

Investors should carefully review and consider the information regarding certain factors which could materially affect our business, operating results, cash flows, and financial condition set forth under Item 1A, Risk Factors, in our fiscal 2021 Annual Report on Form 10-K filed with the SEC on August 25, 2021.

There have been no material changes from the risk factors described in our Annual Report, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

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

During the third quarter of fiscal 2022 we repurchased 65,951 shares of our common stock in the open market for an aggregate purchase price, including commissions, of \$2.0 million. These shares were recorded as treasury stock and we do not anticipate retiring them.

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 April 1, 2022, \$8.0 million remains available under the stock repurchase program, and we may choose to suspend or discontinue the repurchase program at any time.

Following is a summary of stock repurchases for the three months ended April 1, 2022:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Repurchased Under the Program ⁽¹⁾⁽²⁾
				(in thousands)
January 1, 2022 through January 28, 2022	22,700	\$ 33.00	22,700	\$ 9,251
January 29, 2022 through February 25, 2022	24,911	\$ 29.95	24,911	\$ 8,505
February 26 through April 1, 2022	18,340	\$ 26.99	18,340	\$ 8,010
Total	<u>65,951</u>			

⁽¹⁾ In May 2018, our Board of Directors approved a stock repurchase program, which does not have an expiration date, for the repurchase of up to \$7.5 million of our common stock. The May 2018 program has been completed and no amount remains available under the program.

⁽²⁾ In November 2021, our Board of Directors approved a stock repurchase program, which does not have an expiration date, for the repurchase of up to \$10.0 million of our common stock.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

Exhibit Number	Descriptions
3.1	Amended and Restated Certificate of Incorporation of Aviat Networks, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Current Report on Form 10-Q filed with the SEC on February 10, 2017, File No. 001-33278)
3.2	Amended and Restated Bylaws of Aviat Networks, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on September 24, 2020, File No. 001-33278)
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 4, 2022

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 April 1, 2022, 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 4, 2022

/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 April 1, 2022, 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 4, 2022

/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 April 1, 2022, 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 4, 2022

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

Date:
May 4, 2022

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