

AVIAT NETWORKS, INC.
Form 10-Q
February 10, 2017

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 December 30, 2016

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)

20-5961564
(I.R.S. Employer
Identification No.)

860 N. McCarthy Blvd., Suite 200, Milpitas, California
(Address of principal executive offices)

95035
(Zip Code)

(408) 941-7100

(Registrant's telephone number, including area code)

No changes

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 February 2, 2017 was 5,306,298 shares.

AVIAT NETWORKS, INC.
 QUARTERLY REPORT ON FORM 10-Q
 For the Quarterly Period Ended December 30, 2016
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AVIAT NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| (In thousands) | December 30, 2016 | July 1, 2016 |
|--|----------------------|------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 34,978 | \$30,479 |
| Short-term investments | 229 | 222 |
| Accounts receivable, net | 56,201 | 63,449 |
| Unbilled costs | 7,535 | 5,117 |
| Inventories | 20,433 | 27,293 |
| Customer service inventories | 2,623 | 3,064 |
| Other current assets | 11,120 | 10,790 |
| Total current assets | 133,119 | 140,414 |
| Property, plant and equipment, net | 16,836 | 18,162 |
| Deferred income taxes | 5,727 | 6,068 |
| Other assets | 1,236 | 1,467 |
| TOTAL ASSETS | \$ 156,918 | \$166,111 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Short-term debt | \$ 8,000 | \$9,000 |
| Accounts payable | 31,962 | 33,217 |
| Accrued expenses | 23,044 | 23,205 |
| Advance payments and unearned income | 25,451 | 30,615 |
| Restructuring liabilities | 2,405 | 3,910 |
| Total current liabilities | 90,862 | 99,947 |
| Unearned income | 7,700 | 8,387 |
| Other long-term liabilities | 1,119 | 1,409 |
| Reserve for uncertain tax positions | 1,364 | 1,414 |
| Deferred income taxes | 1,492 | 1,497 |
| Total liabilities | 102,537 | 112,654 |
| Commitments and contingencies (Note 11) | | |
| Equity: | | |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding | — | — |
| Common stock, \$0.01 par value, 300,000,000 shares authorized, 5,306,298 shares issued and outstanding at December 30, 2016; 5,261,041 shares issued and outstanding at July 1, 2016 | 53 | 53 |
| Additional paid-in-capital | 812,552 | 811,601 |
| Accumulated deficit | (746,332) | (747,381) |
| Accumulated other comprehensive loss | (12,305) | (11,157) |
| Noncontrolling interests | 413 | 341 |
| Total equity | 54,381 | 53,457 |
| TOTAL LIABILITIES AND EQUITY | \$ 156,918 | \$166,111 |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| (In thousands, except per share amounts) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | December 31, 2016 | January 1, 2016 | December 31, 2016 | January 1, 2016 |
| Revenues: | | | | |
| Revenue from product sales | \$45,958 | \$44,675 | \$80,682 | \$98,361 |
| Revenue from services | 22,578 | 25,741 | 46,061 | 51,610 |
| Total revenues | 68,536 | 70,416 | 126,743 | 149,971 |
| Cost of revenues: | | | | |
| Cost of product sales | 31,003 | 33,330 | 55,863 | 70,508 |
| Cost of services | 16,417 | 20,662 | 32,399 | 42,028 |
| Total cost of revenues | 47,420 | 53,992 | 88,262 | 112,536 |
| Gross margin | 21,116 | 16,424 | 38,481 | 37,435 |
| Operating expenses: | | | | |
| Research and development expenses | 4,475 | 5,210 | 9,418 | 10,686 |
| Selling and administrative expenses | 14,056 | 16,178 | 29,243 | 33,290 |
| Restructuring charges | 72 | 34 | 232 | 55 |
| Total operating expenses | 18,603 | 21,422 | 38,893 | 44,031 |
| Operating income (loss) | 2,513 | (4,998) | (412) | (6,596) |
| Interest income | 72 | 55 | 126 | 137 |
| Interest expense | (3) | (84) | (21) | (93) |
| Other income (expense) | 5 | — | (177) | — |
| Income (loss) from continuing operations before income taxes | 2,587 | (5,027) | (484) | (6,552) |
| Provision for (benefit from) income taxes | 865 | 507 | (1,605) | 495 |
| Income (loss) from continuing operations | 1,722 | (5,534) | 1,121 | (7,047) |
| Income from discontinued operations, net of tax | — | — | — | 359 |
| Net income (loss) | 1,722 | (5,534) | 1,121 | (6,688) |
| Net income attributable to noncontrolling interests, net of tax | 44 | 145 | 72 | 194 |
| Net income (loss) attributable to Aviat Networks | \$1,678 | \$(5,679) | \$1,049 | \$(6,882) |
| Amount attributable to Aviat Networks: | | | | |
| Net income (loss) from continuing operations, net of tax | \$1,678 | \$(5,679) | \$1,049 | \$(7,241) |
| Net income from discontinued operations, net of tax | \$— | \$— | \$— | \$359 |
| Basic income (loss) per share attributable to Aviat Networks' common stockholders: | | | | |
| Continuing operations | \$0.32 | \$(1.09) | \$0.20 | \$(1.39) |
| Discontinued operations | — | — | — | 0.07 |
| Net income (loss) | \$0.32 | \$(1.09) | \$0.20 | \$(1.32) |
| Weighted average shares outstanding, basic | 5,284 | 5,230 | 5,273 | 5,218 |
| Diluted income (loss) per share attributable to Aviat Networks' common stockholders: | | | | |
| Continuing operations | \$0.31 | \$(1.09) | \$0.20 | \$(1.39) |
| Discontinued operations | — | — | — | 0.07 |
| Net income (loss) | \$0.31 | \$(1.09) | \$0.20 | \$(1.32) |
| Weighted average shares outstanding, diluted | 5,400 | 5,230 | 5,328 | 5,218 |
| See accompanying Notes to Condensed Consolidated Financial Statements | | | | |

AVIAT NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

| (In thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | December 31, 2016 | January 1, 2016 | December 31, 2016 | January 1, 2016 |
| Net income (loss) | \$1,722 | \$(5,534) | \$1,121 | \$(6,688) |
| Other comprehensive loss: | | | | |
| Net change in unrealized loss on hedging activities | — | — | — | (41) |
| Net change in cumulative translation adjustments | (778) | (293) | (1,148) | (990) |
| Other comprehensive loss | (778) | (293) | (1,148) | (1,031) |
| Comprehensive income (loss) | 944 | (5,827) | (27) | (7,719) |
| Comprehensive income attributable to noncontrolling interests, net of tax | 44 | 145 | 72 | 194 |
| Comprehensive income (loss) attributable to Aviat Networks | \$900 | \$(5,972) | \$(99) | \$(7,913) |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| (In thousands) | Six Months Ended | |
|--|-------------------|-----------------|
| | December 31, 2016 | January 1, 2016 |
| Operating Activities | | |
| Net income (loss) | \$1,121 | \$(6,688) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization of property, plant and equipment | 3,136 | 3,376 |
| (Recovery) provision for uncollectible receivables | (643) | 179 |
| Share-based compensation | 946 | 922 |
| Deferred tax assets, net | 336 | 475 |
| Charges for inventory and customer service inventory write-downs | 1,097 | 2,305 |
| Loss on disposition of property, plant and equipment | 137 | 204 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 7,891 | 6,435 |
| Unbilled costs | (2,419) | 3,948 |
| Inventories | 6,602 | (3,140) |
| Customer service inventories | (92) | 1,633 |
| Accounts payable | (120) | (6,010) |
| Accrued expenses | (1,090) | (478) |
| Advance payments and unearned income | (6,394) | 2,805 |
| Income taxes payable or receivable | 968 | (728) |
| Other assets and liabilities | (2,636) | 1,142 |
| Net cash provided by operating activities | 8,840 | 6,380 |
| Investing Activities | | |
| Payments for acquisition of property, plant and equipment | (2,853) | (759) |
| Net cash used in investing activities | (2,853) | (759) |
| Financing Activities | | |
| Proceeds from borrowings | 16,000 | 18,000 |
| Repayments of borrowings | (17,000) | (18,000) |
| Proceeds from issuance of common stock under employee stock plans | 5 | 9 |
| Net cash (used in) provided by financing activities | (995) | 9 |
| Effect of exchange rate changes on cash and cash equivalents | (493) | (843) |
| Net Increase in Cash and Cash Equivalents | 4,499 | 4,787 |
| Cash and Cash Equivalents, Beginning of Period | 30,479 | 34,735 |
| Cash and Cash Equivalents, End of Period | \$34,978 | \$39,522 |

See accompanying Notes to 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 and license-exempt applications, supporting new network deployments, network expansion, and capacity upgrades.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, the statements do not include all information and footnotes required by U.S. GAAP for annual consolidated financial statements. In the opinion of our management, such interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows for such periods. The results for the three and six months ended December 30, 2016 are not necessarily indicative of the results that may be expected for the full fiscal year or future operating periods. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended July 1, 2016.

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

We operate on a 52-week or 53-week year ending on the Friday closest to June 30. The first two quarters of fiscal 2017 and fiscal 2016 included 13 weeks in each quarter. Fiscal year 2017 will be comprised of 52 weeks and will end on June 30, 2017.

Use of Estimates

The preparation of 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, restructuring obligations, product warranty obligations, share-based awards, contingencies, recoverability of long-lived assets and useful lives of property, plant and equipment.

Reverse Stock Split

In June 2016, we effected a reverse stock split of all of the outstanding shares of our common stock at a ratio of 1-for-12 (“Reverse Stock Split”). The authorized shares of 300 million and par value per share of the common stock at \$0.01 per share remain unchanged after the reverse stock split. All share and per-share data in our unaudited condensed consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect this reverse stock split.

Summary of Significant Accounting Policies

There have been no material changes in our significant accounting policies as of and for the six months ended December 30, 2016, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended July 1, 2016.

Accounting Standards Adopted

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, Interest - Imputation of Interest (Topic 835-30), Simplifying the Presentation of Debt Issuance Costs. To simplify the presentation of debt issuance costs, the standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for us beginning in our fiscal year 2017. In August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This ASU includes an SEC staff announcement that the SEC staff would not object to an entity deferring and presenting the costs of securing a revolving line of credit as an asset, and amortizing the costs over the term of the line-of-credit arrangement, regardless of there are any outstanding borrowings on the line-of-credit arrangement. The subject of this ASU was not previously addressed by ASU No. 2015-03. We have adopted both accounting guidance during the first quarter of fiscal 2017 and applied its provisions retrospectively. The adoption of this standard had no material impact on our condensed consolidated financial statements and related disclosures.

Accounting Standards Not Yet Adopted

In November 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. The guidance addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The guidance will be effective retrospectively for our fiscal year 2019. Early adoption is permitted. We are evaluating the effect the adoption of the standard will have on our condensed financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16 (Topic 740), Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory, which requires that an entity recognizes the tax expense from the sale of intra-entity sales of assets, other than inventory, in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminate in consolidation. The guidance will be effective for our fiscal year 2019. Early adoption is permitted. The ASU must be adopted using a modified retrospective method. We are evaluating the effect the adoption of the standard will have on our condensed financial statements and related disclosures. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230), Clarification of Certain Cash Receipts and Cash Payments, which provides guidance on the presentation and classification of eight specific cash flow issues. Those issues are cash payment for debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instrument or other debt instrument with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; cash received from settlement of corporate-owned life insurance policies; distribution received from equity method investees; beneficial interest in securitization transactions; and classification of cash receipts and payments that have aspect of more than one class of cash flows. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017 with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 (ASC Topic 606) Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under GAAP. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and assets recognized from costs incurred to obtain or fulfill a contract will also be required. The FASB

subsequently issued an update to this standard in August 2015, ASU 2015-14 (ASC Topic 606) Revenue from Contracts with Customers, Deferral of the Effective Date, which provides deferral of the effective date by one year. The standard will be effective for us beginning in our fiscal 2019 and allows for either full retrospective or modified retrospective adoption.

Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016 and including interim reporting periods within such reporting period. The FASB has since issued additional updates of its new standard on revenue recognition issued in May 2014. In March 2016, an amendment was issued to clarify the implementation guidance on principal versus agent consideration. ASU 2016-08 (ASC Topic 606) Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) requires entities to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation.

In April 2016, ASU 2016-10 (ASC Topic 606) Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing was issued to clarify the identification of performance obligations and the licensing implementation guidance in the initial standard. ASU 2016-12 (ASC Topic 606) Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients was issued in May 2016 related to its guidance on assessing collectability, presentation of sales tax, noncash consideration, and completed contracts and contract modification at transition, which reduce the potential for diversity in practice, and the cost and complexity of application at transition and on an ongoing basis. ASU 2016-20 (ASC Topic 606) Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers was issued in December 2016 provides clarity related to loan guarantees, contract costs -impairment testing, contract costs - interaction of impairment testing with other guidance, provisions for losses on construction-type and production-type contracts, scope exception for this topic and disclosure of remaining performance obligations. We are evaluating the effects of the new guidance and have not yet selected a transition method nor have we determined the potential effects of adoption on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, (Topic 718) Improvements to Employee Share-Based Payment Accounting, which requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016 with early adoption permitted. We are evaluating the effect of the adoption the standard will have on our condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. This standard will become effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The guidance is required to be adopted at the earliest period presented using a modified retrospective approach. We are evaluating the effect the adoption of the standard will have on our condensed consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. The guidance also changes the accounting for investments without a readily determinable fair value and do not qualify for the practical expedient to estimate fair value. A policy election can be made for these investments whereby estimated fair value may be measured at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments. This ASU is effective for fiscal years beginning after December 15, 2017. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11 (Topic 330), Simplifying the Measurement of Inventory, which provides guidance to companies who account for inventory using either the first-in, first-out or average cost methods. The guidance states that companies should measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for fiscal years beginning after

December 15, 2016. Early adoption is permitted. We are evaluating the effect the adoption of the standard will have on our condensed consolidated financial statements and related disclosures.

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

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

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

| (In thousands, except per share amounts) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | December 31, 2016 | January 1, 2016 | December 31, 2016 | January 1, 2016 |
| Numerator: | | | | |
| Net income (loss) from continuing operations, net of tax | \$1,678 | \$(5,679) | \$1,049 | \$(7,241) |
| Net income from discontinued operations, net of tax | — | — | — | 359 |
| Net income (loss) attributable to Aviat Networks | \$1,678 | \$(5,679) | \$1,049 | \$(6,882) |
| Denominator: | | | | |
| Weighted average shares outstanding, basic | 5,284 | 5,230 | 5,273 | 5,218 |
| Effect of potentially dilutive equivalent shares | 116 | — | 55 | — |
| Weighted average shares outstanding, diluted | 5,400 | 5,230 | 5,328 | 5,218 |
| Basic income (loss) per share attributable to Aviat Networks' common stockholders: | | | | |
| Continuing operations | \$0.32 | \$(1.09) | \$0.20 | \$(1.39) |
| Discontinued operations | — | — | — | 0.07 |
| Net income (loss) | \$0.32 | \$(1.09) | \$0.20 | \$(1.32) |
| Diluted income (loss) per share attributable to Aviat Networks' common stockholders: | | | | |
| Continuing operations | \$0.31 | \$(1.09) | \$0.20 | \$(1.39) |
| Discontinued operations | — | — | — | 0.07 |
| Net income (loss) | \$0.31 | \$(1.09) | \$0.20 | \$(1.32) |

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

| (In thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | December 31, 2016 | January 1, 2016 | December 31, 2016 | January 1, 2016 |
| Stock options | 427 | 589 | 435 | 600 |
| Restricted stocks units and performance stock units | 6 | 234 | 8 | 156 |
| Total potential shares of common stock excluded | 433 | 823 | 443 | 756 |

Note 3. Balance Sheet Components

Accounts Receivable, net

Our net accounts receivable as of December 30, 2016 and July 1, 2016 were as follows:

| (In thousands) | December 30, July 1, | |
|---------------------------------------|----------------------|----------|
| | 2016 | 2016 |
| Accounts receivable | \$ 63,864 | \$71,416 |
| Less allowances for collection losses | (7,663) | (7,967) |
| | \$ 56,201 | \$63,449 |

Inventories

Our inventories as of December 30, 2016 and July 1, 2016 were as follows:

| (In thousands) | December 30, July 1, | |
|--|----------------------|----------|
| | 2016 | 2016 |
| Finished products | \$ 14,706 | \$20,044 |
| Work in process | 3,024 | 5,104 |
| Raw materials and supplies | 2,703 | 2,145 |
| Total inventories | \$ 20,433 | \$27,293 |
| Deferred cost of revenue included within finished goods | \$ 4,947 | \$5,984 |
| Consigned inventories included within raw materials and supplies | \$ 1,887 | \$2,035 |

We recorded charges to adjust our inventory and customer service inventory to the lower of cost or market. These charges were primarily due to excess and obsolete inventory resulting from product transitioning or discontinuance.

During the three and six months ended December 30, 2016 and January 1, 2016, such charges incurred were classified in cost of product sales as follows:

| (In thousands) | Three Months Ended | | Six Months Ended | |
|--|----------------------|----------|-------------------------|----------|
| | December 30, July 1, | | December 30, January 1, | |
| | 2016 | 2016 | 2016 | 2016 |
| Excess and obsolete inventory charges | \$94 | \$ 979 | \$568 | \$ 1,957 |
| Customer service inventory write-downs | 242 | 219 | 529 | 348 |
| | \$336 | \$ 1,198 | \$1,097 | \$ 2,305 |

Property, Plant and Equipment, net

Our property, plant and equipment, net as of December 30, 2016 and July 1, 2016 were as follows:

| (In thousands) | December 30, July 1, | |
|--|----------------------|-----------|
| | 2016 | 2016 |
| Land | \$ 710 | \$710 |
| Buildings and leasehold improvements | 11,346 | 11,714 |
| Software | 14,370 | 14,620 |
| Machinery and equipment | 41,259 | 42,960 |
| | 67,685 | 70,004 |
| Less accumulated depreciation and amortization | (50,849) | (51,842) |
| | \$ 16,836 | \$18,162 |

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 | | Six Months Ended | |
|-------------------------------|--------------------|-----------------|-------------------|-----------------|
| | December 31, 2016 | January 1, 2016 | December 31, 2016 | January 1, 2016 |
| Depreciation and amortization | \$ 1,467 | \$ 1,672 | \$ 3,136 | \$ 3,376 |

Accrued Expenses

Our accrued expenses are summarized below:

| (In thousands) | December 30, 2016 | July 1, 2016 |
|-----------------------------------|-------------------|--------------|
| Accrued compensation and benefits | \$ 7,663 | \$ 7,161 |
| Accrued commissions | 1,823 | 3,551 |
| Accrued warranties | 3,559 | 3,944 |
| Other | 9,999 | 8,549 |
| | \$ 23,044 | \$ 23,205 |

Accrued Warranties

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

| (In thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | December 31, 2016 | January 1, 2016 | December 31, 2016 | January 1, 2016 |
| Balance as of the beginning of the period | \$ 3,704 | \$ 4,722 | \$ 3,944 | \$ 4,221 |
| Warranty provision recorded during the period | 480 | 934 | 817 | 2,413 |
| Consumption during the period | (625) | (859) | (1,202) | (1,837) |
| Balance as of the end of the period | \$ 3,559 | \$ 4,797 | \$ 3,559 | \$ 4,797 |

Advanced payments and Unearned Income

Our advanced payments and unearned income are summarized below:

| (In thousands) | December 30, 2016 | July 1, 2016 |
|-------------------|-------------------|--------------|
| Advanced payments | \$ 10,407 | \$ 12,124 |
| Unearned income | 15,044 | 18,491 |
| | \$ 25,451 | \$ 30,615 |

Note 4. Fair Value Measurements of Assets and Liabilities

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

- Level 1 — Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2 — Observable market-based inputs or observable inputs that are corroborated by market data; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts, estimated fair values and valuation input levels of our assets and liabilities that are measured at fair value on a recurring basis as of December 30, 2016 and July 1, 2016 were as follows:

| (In thousands) | December 30, 2016 | | July 1, 2016 | | Valuation Inputs |
|------------------------------------|----------------------|------------|--------------|------------|------------------|
| | Cost | Fair Value | Cost | Fair Value | |
| Assets: | | | | | |
| Cash equivalents: | | | | | |
| Money market funds | \$18,129 | \$18,129 | \$18,800 | \$18,800 | Level 1 |
| Bank certificates of deposit | \$11 | \$11 | \$11 | \$11 | Level 2 |
| Short term investments: | | | | | |
| Bank certificates of deposit | \$228 | \$228 | \$222 | \$222 | Level 2 |
| Other current assets: | | | | | |
| Foreign exchange forward contracts | \$193 | \$193 | \$5 | \$5 | Level 2 |
| Liabilities: | | | | | |
| Other accrued expenses: | | | | | |
| Foreign exchange forward contracts | \$309 | \$309 | \$9 | \$9 | Level 2 |

We classify items within Level 1 if quoted prices are available in active markets. Our Level 1 items mainly are money market funds. As of December 30, 2016 and July 1, 2016, these money market funds were valued at \$1.00 net asset value per share.

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

As of December 30, 2016 and July 1, 2016, we did not have any recurring assets or liabilities that were valued using significant unobservable inputs.

Our policy is to recognize asset or liability transfers among Level 1, Level 2 and Level 3 as of the actual date of the events or change in circumstances that caused the transfer. During the first six months of fiscal 2017 and 2016, we had no transfers between levels of the fair value hierarchy of our assets or liabilities measured at fair value.

Note 5. Credit Facility and Debt

On March 28, 2014, we entered into a Second Amended and Restated Loan Agreement with Silicon Valley Bank (the "SVB Credit Facility"). The SVB Credit Facility expires on June 30, 2018. The SVB Credit Facility provides for a committed amount of up to \$30.0 million, with a \$30.0 million sublimit that can be borrowed by our Singapore subsidiary. Borrowings may be advanced under the SVB Credit Facility at the lesser of \$30.0 million or a borrowing base equal to a specified percentage of the value of eligible accounts receivable and U.S. unbilled accounts of the Company, subject to certain reserves and eligibility criteria. The SVB Credit Facility can also be utilized to issue letters of credit with a \$12.0 million sublimit. If the SVB Credit Facility is terminated by us in certain circumstances prior to its expiration, we are subject to an early termination fee equal to 1% of the revolving line.

Our outstanding debt under the SVB Credit Facility was \$8.0 million and \$9.0 million as of December 30, 2016 and July 1, 2016, respectively. The SVB Credit Facility carries an interest rate computed at the daily prime rate as published in the Wall Street Journal plus a spread of 0.50% to 1.50%, with such spread determined based on our adjusted quick ratio. During the first six months of fiscal year 2017, the weighted average interest rate on our outstanding loan was 4.03%. As of December 30, 2016, available credit under the SVB Credit Facility was \$5.1 million reflecting the calculated borrowing base of \$20.0 million less existing borrowings of \$8.0 million and outstanding letters of credit of \$6.9 million.

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 SVB 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 2% above the applicable interest rate. As of December 30, 2016, we were in compliance with the quarterly financial covenants, as amended, contained in the SVB Credit Facility. However, as we have historically amended the agreement to revise financial covenants and the fact that the SVB Credit Facility contains subjective acceleration clauses that could be triggered by the lender, the \$8.0 million and \$9.0 million borrowing was classified as a current liability as of December 30, 2016 and July 1, 2016.

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 December 30, 2016 and July 1, 2016. The line of credit also provides for the issuance of standby letters of credit and company credit cards, of which \$0.1 million was outstanding as of December 30, 2016. This facility may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Note 6. Restructuring Activities

The following table summarizes our restructuring related activities during the three and six months ended December 30, 2016:

| (In thousands) | Severance and Benefits | | | Facilities and Other | | | Total |
|---|------------------------|-----------|-----------|----------------------|-----------|-----------|----------|
| | Fiscal | Fiscal | Fiscal | Fiscal | Fiscal | Fiscal | |
| | 2016-2017 | 2015-2016 | 2013-2014 | 2015-2016 | 2014-2015 | 2013-2014 | |
| | Plan | Plan | Plan | Plan | Plan | Plan | |
| Accrual balance, July 1, 2016 | \$ 1,512 | \$ 357 | \$ 68 | \$ 550 | \$ 582 | \$ 1,746 | \$ 4,815 |
| Charges, net | 4 | 30 | — | — | 110 | 16 | 160 |
| Cash payments | (811) | (313) | (4) | 3 | (228) | (369) | (1,722) |
| Accrual balance, September 30, 2016 | 705 | 74 | 64 | 553 | 464 | 1,393 | 3,253 |
| Charges, net | 37 | (25) | — | — | 47 | 13 | 72 |
| Cash payments | (235) | 23 | — | (38) | (145) | (306) | (701) |
| Accrual balance as of December 30, 2016 | \$ 507 | \$ 72 | \$ 64 | \$ 515 | \$ 366 | \$ 1,100 | \$ 2,624 |

In June 2016, we entered into a lease termination agreement to end our headquarters lease in Santa Clara, California and in September 2016 we vacated the building. Under the lease termination agreement, we agreed to pay a termination fee of \$1.9 million payable over 14 months. The termination fee was included in the restructuring liabilities as of December 30, 2016 under the Fiscal 2014-2015 Plan and the Fiscal 2013-2014 Plan.

As of December 30, 2016, \$2.4 million of the accrual balance was in short-term restructuring liabilities while \$0.2 million was included in other long-term liabilities on the condensed consolidated balance sheets.

Fiscal 2016-2017 Plan

During the fourth quarter of fiscal 2016, we initiated a restructuring plan (the “Fiscal 2016-2017 Plan”) to streamline our operations and align expenses with current revenue levels. Activities under the Fiscal 2016-2017 Plan primarily include reductions in workforce in marketing, selling and general and administrative functions. We intend to substantially complete the remaining restructuring activities under the Fiscal 2016-2017 Plan by the third quarter of fiscal 2017.

Fiscal 2015-2016 Plan

During the third quarter of fiscal 2015, with the intent to bring our operational cost structure in line with the changing dynamics of the microwave radio and telecommunications markets, we initiated a restructuring plan (the “Fiscal 2015-2016 Plan”) to lower fixed overhead costs and operating expenses and to preserve cash flow. Activities under the Fiscal 2015-2016 Plan primarily include reductions in workforce across the Company, but primarily in operations outside the United States. We substantially completed the restructuring activities under the Fiscal 2015-2016 Plan as of July 1, 2016. Payment related to the accrued restructuring liability balance for this plan will be paid through fiscal 2020.

Fiscal 2014-2015 Plan

During the third quarter of fiscal 2014, in line with the decrease in revenue that we experienced and our reduced forecast for the immediate future, we initiated a restructuring plan (the “Fiscal 2014-2015 Plan”) to reduce our operating costs, primarily in North America, Europe and Asia. Activities under the Fiscal 2014-2015 Plan primarily include reductions in workforce and additional facility downsizing of our Santa Clara, California headquarters. We substantially completed the restructuring activities under the Fiscal 2014-2015 Plan as of July 1, 2016. Payment related to the accrued restructuring liability balance for this plan will be paid through fiscal 2018.

Fiscal 2013-2014 Plan

During the fourth quarter of fiscal 2013, we initiated a restructuring plan (the “Fiscal 2013-2014 Plan”) that was intended to reduce our operating expenses primarily in North America, Europe and Asia. Activities under the Fiscal 2013-2014 Plan included reductions in workforce and facility downsizing of our Santa Clara, California headquarters and certain international field offices. We substantially completed the restructuring activities under the Fiscal 2013-2014 Plan as of June 27, 2014. Payment related to the accrued restructuring liability balance for this plan will be paid through fiscal 2018.

Note 7. Stockholders’ Equity

2007 Stock Equity Plan and Activities

We have one stock incentive plan for our employees and nonemployee directors, the 2007 Stock Equity Plan, as amended and restated effective November 13, 2015 (the “2007 Stock Plan”). During the six months ended December 30, 2016, we awarded 72,941 performance stock units, 50,000 market-based stock units and 213,467 restricted stock units associated with our fiscal 2017 Long-Term Incentive Plan under the 2007 Stock Plan. For the performance share units, the performance criteria is ending the fiscal year 2017 with positive adjusted earnings before interest, taxes, depreciation and amortization. Once the performance share units are earned, they will be vested three years after the grant date. For the market-based stock units, the performance goal is based on the Company’s common stock price at the end of calendar year 2018. The award units will be vested on the date that the Compensation Committee certifies achievement of the performance measure. The restricted stock units granted will be vested in full three years after the grant date.

During the six months ended December 30, 2016, we cancelled 6,253 market-based stock units, 10,370 restricted stock units, 983 shares of stock appreciation rights, and options to purchase 15,430 shares of our common stock due to employee terminations. In the same period, we cancelled 48,626 market-based stock units due to the non-achievement of specified market conditions and options to purchase 16,416 shares of our common stock expired.

We issue new shares of our common stock to our employees upon the exercise of stock options, vesting of restricted stock awards and units or vesting of performance share awards and units. All awards that are cancelled prior to vesting or expire unexercised are returned to the approved pool of reserved shares under the 2007 Stock Plan and made available for future grants. Shares of our common stock remaining available for future issuance under the 2007 Stock Plan totaled 262,191 as of December 30, 2016.

On September 6, 2016, our Board of Directors (the “Board”) authorized and declared a dividend distribution of one right (a “Right”) for each outstanding share of our common stock, par value \$0.01 per share (the “Common Shares”), to our stockholders of record as of the close of business on September 16, 2016. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Participating Preferred Stock, par value \$0.01 per share (the “Preferred Shares”), of the Company at an exercise price of \$35.00 (the “Exercise Price”) per one one-thousandth of a Preferred Share, subject to adjustment. Until the rights become exercisable, they will not be

evidenced

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by separate certificates and will trade automatically with shares of the Company's common stock. The Rights have a de minimus fair value. The complete terms of the Rights are set forth in a Tax Benefit Preservation Plan (the "Plan"), effective as of September 6, 2016, between the Company and Computershare Inc., as rights agent. By adopting the Plan, we are helping to preserve the value of certain deferred tax benefits, including those generated by net operating losses (collectively, the "Tax Benefits"), which could be lost in the event of an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended. The Plan reduces the likelihood that changes in our investor base have the unintended effect of limiting our use of the Tax Benefits.

Also, on September 6, 2016, our Board of Directors adopted certain amendments to our Amended and Restated Certificate of Incorporation, as amended (the "Charter Amendments"). The Charter Amendments are designed to preserve the Tax Benefits by restricting certain transfers of our common stock.

Both the Plan and the Charter Amendments were approved at our 2016 annual meeting of stockholders on November 16, 2016. No actions were taken under the Plan as of December 30, 2016.

Share-Based Compensation

Total compensation expense for share-based awards included in our condensed consolidated statements of operations for the three and six months ended December 30, 2016 and January 1, 2016 was as follows:

| (In thousands) | Three Months | | Six Months | |
|---|--------------|------------|--------------|------------|
| | Ended | Ended | Ended | Ended |
| | December 30, | January 1, | December 30, | January 1, |
| | 2016 | 2016 | 2016 | 2016 |
| By Expense Category: | | | | |
| Cost of revenues | \$ 62 | \$ 46 | \$ 102 | \$ 82 |
| Research and development | 38 | 34 | 62 | 63 |
| Selling and administrative | 388 | 349 | 782 | 777 |
| Total share-based compensation expense | \$ 488 | \$ 429 | \$ 946 | \$ 922 |
| By Types of Award: | | | | |
| Options | \$ 43 | \$ 213 | \$ 189 | \$ 482 |
| Restricted and performance stock awards and units | 445 | 216 | 757 | 440 |
| Total share-based compensation expense | \$ 488 | \$ 429 | \$ 946 | \$ 922 |

As of December 30, 2016, there was \$0.2 million of total unrecognized compensation expense related to nonvested stock options granted under our 2007 Stock Plan. This expense is expected to be recognized over a weighted average period of 1.6 years. As of December 30, 2016, there was \$4.3 million of total unrecognized compensation expense related to nonvested stock awards and units granted under our 2007 Stock Plan. This expense is expected to be recognized over a weighted average period of 2.2 years.

Note 8. 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. We conduct business globally and our sales and support activities are managed on a geographic basis. Our Chief Executive Officer is our Chief Operating Decision Maker.

We report revenue by region and country based on the location where our customers accept delivery of our products and services. Revenue by region for the three and six months ended December 30, 2016 and January 1, 2016 were as follows:

| (In thousands) | Three Months Ended | | Six Months Ended | |
|--------------------------------|--------------------|-----------------|-------------------|-----------------|
| | December 31, 2016 | January 1, 2016 | December 31, 2016 | January 1, 2016 |
| North America | \$39,353 | \$ 31,844 | \$67,937 | \$ 67,064 |
| Africa and Middle East | 16,770 | 23,703 | 31,119 | 50,991 |
| Europe and Russia | 2,810 | 5,617 | 7,317 | 12,059 |
| Latin America and Asia Pacific | 9,603 | 9,252 | 20,370 | 19,857 |
| Total Revenue | \$68,536 | \$ 70,416 | \$ 126,743 | \$ 149,971 |

Mobile Telephone Networks Group (MTN Group) accounted for 13% and 22% of our accounts receivable as of December 30, 2016 and July 1, 2016, respectively. Motorola Solutions, Inc. (Motorola) accounted for 12% and 11% of our accounts receivable as of December 30, 2016 and July 1, 2016, respectively. During the three and six months ended December 30, 2016, MTN Group accounted for 12% and 11%, respectively, of our total revenue. During the three and six months ended January 1, 2016, MTN Group accounted for 20% and 18%, respectively, of our total revenue. Motorola accounted for 10% of our total revenue during the three months ended January 1, 2016; however, Motorola did not account for 10% of our total revenue during the six months ended January 1, 2016. We have entered into separate and distinct contracts with MTN Group and Motorola, as well as separate arrangements with various their various subsidiaries. The loss of all business from MTN Group or Motorola, or any other significant customers, could adversely affect our results of operations, cash flows and financial position.

Note 9. Divestiture

We sold our WiMAX business on September 2, 2011 and began accounting for the WiMAX business as a discontinued operation. The operating results of our WiMAX business were included in discontinued operations in our condensed consolidated financial statements for all periods presented. The income recognized in the first six months of fiscal 2016 of \$0.4 million, net of income taxes, was primarily due to recovery of certain WiMAX customer receivables that were previously written down. No income was recognized in respect of the WiMAX business in the first six months of fiscal 2017.

Note 10. Income Taxes

Our effective tax rate varies from the U.S. federal statutory rate of 35% due to results of foreign operations that are subject to income taxes at different statutory rates, certain jurisdictions where we cannot recognize tax benefits on current losses and tax benefit from a foreign tax refund. During interim periods, we accrue tax expenses for jurisdictions that are anticipated to be profitable for fiscal 2017.

The determination of our provision for the first six months of fiscal 2017 and 2016 was based on our estimated annual effective tax rate adjusted for losses in certain jurisdictions for which no tax benefit can be recognized. The tax expense for the first six months of fiscal 2017 and 2016 were primarily attributable to tax expense related to profitable subsidiaries.

During the fiscal year 2014, we received an assessment letter from the Inland Revenue Authority of Singapore (“IRAS”) related to deductions claimed in prior years and made a payment of \$13.2 million related to tax years 2007 through 2010, reflecting all the taxes incrementally assessed by IRAS. Since the initial assessment, we continue to pursue remedies to challenge this assessment. During the first quarter of fiscal 2017, we received an initial refund of \$3.7 million from IRAS which was recorded as a discrete tax benefit during the quarter. We will continue our discussion with IRAS to resolve the remaining tax positions. We believe that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits.

We have a number of years with open tax audits which vary from jurisdiction to jurisdiction. Our major tax jurisdictions include the U.S., Singapore and Nigeria. The earliest years that are open and subject to potential audits for these jurisdictions are as follows: U.S. — 2003; Singapore — 2006; and Nigeria — 2011.

We account for interest and penalties related to unrecognized tax benefits as part of our provision for federal, foreign and state income taxes. Such interest expense was not material for the three and six months ended December 30, 2016 and January 1, 2016.

Note 11. Commitments and Contingencies

Operating Lease Commitments

We lease office and manufacturing facilities under non-cancelable operating leases expiring at various dates through 2024. We lease approximately 19,000 square feet of office space in Milpitas, California with a term of 60 months as our corporate headquarters. In June 2016, we entered into a lease termination agreement for our previous headquarters lease in Santa Clara, California and the termination fees are included in the restructuring liabilities in the condensed consolidated balance sheets.

As of December 30, 2016, our future minimum lease payments under all non-cancelable operating leases with an initial lease term in excess of one year were as follows:

| Fiscal Years Ending in June | Amounts (In thousands) |
|-------------------------------|------------------------------|
| 2017 (two quarters remaining) | \$ 1,169 |
| 2018 | 1,736 |
| 2019 | 1,313 |
| 2020 | 852 |
| 2020 | 874 |
| Thereafter | 2,231 |
| Total | \$ 8,175 |

These commitments do not contain any material rent escalations, rent holidays, contingent rent, rent concessions, leasehold improvement incentives or unusual provisions or conditions. We sublease a portion of our facilities to third parties and the total minimum rents to be received in the future under our non-cancelable subleases were \$0.1 million as of December 30, 2016. The future minimum lease payments are not reduced by the minimum sublease rents.

Rental expense for operating leases, including rentals on a month-to-month basis, was as follows:

| | Three Months Ended | | Six Months Ended | |
|----------------|--------------------|-----------------|-------------------|-----------------|
| (In thousands) | December 31, 2016 | January 1, 2016 | December 31, 2016 | January 1, 2016 |
| Rent expense | \$987 | \$ 1,050 | \$2,134 | \$ 2,621 |

Purchase Orders and Other Commitments

From time to time in the normal course of business we may enter into purchasing agreements with our suppliers that require us to accept delivery of, and remit full payment for, finished products that we have ordered, finished products that we requested be held as safety stock, and work in process started on our behalf, in the event we cancel or terminate the purchasing agreement. Because these agreements do not specify fixed or minimum quantities, do not specify minimum or variable price provisions, and do not specify the approximate timing of the transaction, and we have no present intention to cancel or terminate any of these agreements, we currently do not believe that we have any future liability under these agreements. As of December 30, 2016, we had outstanding purchase obligations with our suppliers or contract manufacturers of \$22.6 million. In addition, we had contractual obligations of approximately \$1.7 million associated with software licenses as of December 30, 2016.

Financial Guarantees and Commercial Commitments

Guarantees issued by banks, insurance companies or other financial institutions are contingent commitments issued to guarantee our performance under borrowing arrangements, such as bank overdraft facilities, tax and customs obligations and similar transactions or to ensure our performance under customer or vendor contracts. The terms of the guarantees are generally equal to the remaining term of the related debt or other obligations and are generally limited to two years or less. As of December 30, 2016, we had no guarantees applicable to our debt arrangements. We have entered into commercial commitments in the normal course of business including surety bonds, standby letters of credit agreements and other arrangements with financial institutions primarily relating to the guarantee of future

performance on certain contracts to provide products and services to customers. As of December 30, 2016, we had commercial commitments of \$40.4 million outstanding that were not recorded in our condensed consolidated balance sheets. During the second fiscal quarter, we recorded a payout of \$0.4 million on the performance guarantees to a contractor in the Middle East region. We believe the customer improperly drew on the performance bond and intend to pursue all remedies available to recover the payment. We do not believe, based on historical experience and information currently available, that it is probable that any significant amounts will be required to be paid on the performance guarantees in the future.

Indemnifications

Under the terms of substantially all of our license agreements, we have agreed to defend and pay any final judgment against our customers arising from claims against such customers that our software products infringe the intellectual property rights of a third party. As of December 30, 2016, we have not received any notice that any customer is subject to an infringement claim arising from the use of our software products; we have not received any request to defend any customers from infringement claims arising from the use of our software 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 software products. Because the outcome of infringement disputes is related to the specific facts of each case, and given the lack of previous or current indemnification claims, we cannot estimate the maximum amount of potential future payments, if any, related to our indemnification provisions. As of December 30, 2016, 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 \$1.0 million in damages from a customer in Austria alleging that certain of our products were defective. We are continuing to investigate this claim, and at this time an estimate of the reasonably possible loss or range of loss cannot be made. In August 2016, we received correspondence from a customer in Africa demanding that certain inventory to be repurchased under the terms of an inventory management agreement that we believe has expired. We are continuing to investigate this demand, however, during the second fiscal quarter of 2017, we recorded \$0.3 million charge based on an estimate of the probable loss. We believe that we have numerous contractual and legal defenses to these disputes, which are in their early stages, and we intend to dispute them vigorously.

From time to time, we may be involved in various other legal claims and litigation that arise in the normal course of our operations. We are aggressively defending all current litigation matters. Although there can be no assurances and the outcome of these matters is currently not determinable, we currently believe that none of these claims or proceedings are likely to have a material adverse effect on our financial position. We expect to defend each of these disputes vigorously. There are many uncertainties associated with any litigations 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 condensed consolidated financial statements; and (ii) the amount of the loss can be reasonably estimated. Disclosure in the notes to the condensed consolidated financial statements is required for loss contingencies that do not meet both those conditions if there is a reasonable possibility that a loss may have been incurred. Gain contingencies are not recorded until realized. We expense all legal costs incurred to resolve regulatory, legal and tax matters as incurred.

Periodically, we review the status of each significant matter to assess the potential financial exposure. If a potential loss is considered probable and the amount can be reasonably estimated, we reflect the estimated loss in our results 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 condensed consolidated financial statements. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise estimates accordingly. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

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

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

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

- continued price and margin erosion as a result of increased competition in the microwave transmission industry;
- the impact of the volume, timing and customer, product and geographic mix of our product orders;
- our ability to meet financial covenant requirements which could impact, among other things, our liquidity;
- the timing of our receipt of payment for products or services from our customers;
- our ability to meet projected new product development dates or anticipated cost reductions of new products;
- our suppliers’ inability to perform and deliver on time as a result of their financial condition, component shortages or other supply chain constraints;
- customer acceptance of new products;
- the ability of our subcontractors to timely perform;
- continued weakness in the global economy affecting customer spending;
- retention of our key personnel;
- our ability to manage and maintain key customer relationships;
- uncertain economic conditions in the telecommunications sector combined with operator and supplier consolidation;
- our failure to protect our intellectual property rights or defend against intellectual property infringement claims by others;

- the results of our restructuring efforts;
- the ability to preserve and use our net operating loss carryforwards;
- the effects of currency and interest rate risks; and
- the impact of political turmoil in countries where we have significant business.

Other factors besides those listed here also could adversely affect us. See “Item 1A. Risk Factors” in our fiscal 2016 Annual Report on Form 10-K filed with the SEC on September 9, 2016 for more information regarding factors that may cause our results to differ materially from those expressed or implied by the forward-looking statements contained in this Quarterly Report on Form 10-Q.

You should not place undue reliance on these forward-looking statements, which reflect our management’s opinions only as of the date of the filing of this Quarterly Report on Form 10-Q. Forward-looking statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), along with provisions of the Private Securities Litigation Reform Act of 1995, and we undertake no obligation, other than as imposed by law, to update any forward-looking statements to reflect further developments or information obtained after the date of filing of this Quarterly Report on Form 10-Q or, in the case of any document incorporated by reference, the date of that document. Overview of Business; Operating Environment and Key Factors Impacting Fiscal 2016 and 2017 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 below, our fiscal year ending June 30, 2017 is referred to as “fiscal 2017” or “2017” and our fiscal year ended July 1, 2016 is referred to as “fiscal 2016” or “2016”.

We generate revenue by designing, developing, manufacturing and supporting a range of wireless networking products, solutions and services for mobile and fixed communications service providers, private network operators, federal, state and local government agencies, transportation, energy and utility companies, public safety agencies and broadcast network operators around the world. Our products include point-to-point digital microwave transmission systems designed for first/last mile access, middle mile/backhaul, and long distance trunking applications. We also provide network management software solutions to enable operators to deploy, monitor and manage our systems, third party equipment such as antennas, routers, optical transmission equipment and other equipment necessary to build and deploy a complete telecommunications transmission network. We provide a full suite of professional services for planning, deployment, operations and maintenance of our customers’ networks.

We work continuously to improve our established brands and to create new products that meet our customers’ evolving needs and preferences. Our fundamental business goal is to generate superior returns for our stockholders over the long term. We believe that increases in revenue, operating profits and earnings per share are the key measures of financial performance for our business. However, within the industry there continues to be strong price competition for new business and periodic large customer consolidations that intensify competition in all regions.

Our strategic focus in fiscal 2017 is to continue to accelerate innovation and optimize our product portfolio, improve costs and operational efficiencies, grow our revenue and create a sustainable, profitable business model. To do this, we continue to examine our products, markets, facilities, development programs, and operational flows to ensure we are focused on what we do well and what will differentiate us in the future. We will continue working to streamline management processes to attain the efficiency levels required by the markets in which we do business.

Although the general trend of increasing demand for bandwidth to support mobile networks applies in all markets, we expect to see quarter-to-quarter fluctuations within markets and with individual customers based on customers’ past purchasing patterns. Seasonality is also a factor that impacts our business. Our fiscal third quarter revenue and orders have historically been lower than the revenue and orders in our second fiscal quarter because many of our customers utilize a significant portion of their capital budgets at the end of their fiscal years, which is typically the calendar year end and coincides with our second fiscal quarter. The majority of our customers begin a new fiscal year on January 1, and capital expenditures tend to be lower in an organization’s first quarter than in its fourth quarter. We anticipate that this seasonality will continue. The seasonality between the second quarter and third quarter may be affected by a variety of additional factors, including changes in the global economy.

In line with industry trends, we expect to provide increased managed services, including network design, inventory management, final configuration and warehousing services, to certain customers in certain geographies. Our operating results may be impacted by providing these services to the extent that we may need to postpone the recognition of revenue and incur upfront and ongoing expenses that are not offset with additional revenue from product sales associated with these services until a future period.

We continue to explore strategic alternatives to improve the market position and profitability of our product offerings in the marketplace, generate additional liquidity and enhance our valuation. We expect to pursue our goals during the next twelve months principally through organic growth and through other strategic alternatives. Some of these alternatives have included, and could continue to include, selective acquisitions, divestitures and the sale of assets. We have also provided, and may from time to time in the future provide, information to interested parties.

Operations Review

The market for mobile backhaul continues to be our primary addressable market segment and, over the long term, the demand for increasing the backhaul capacity in our customers' networks continues to grow. In North America, we supported long-term evolution ("LTE") deployments of our mobile operator customers, public safety network deployments for state and local governments, and private network implementations for utilities and other customers. In international markets, our business continued to rely on a combination of customers increasing their capacity to handle subscriber growth, the ongoing build-out of some large 3G deployments, and the emergence of early stage LTE deployments. Our international business was adversely affected in fiscal 2016 by constrained availability of U.S. dollars in countries with economies highly dependent on resource exports, particularly oil. This condition limited capital spending and slowed payments from customers in those locations. Those conditions are continuing in early fiscal 2017. Our position continues to be to support our customers for LTE readiness and ensure that our technology roadmap is well aligned with evolving market requirements. We continue to find that our strength in turnkey and after-sale support services is a differentiating factor that wins business for us and enables us to expand our business with existing customers in all markets. However, as disclosed above and in the "Risk Factors" section in Item 1A of our fiscal 2016 Annual Report on Form 10-K, a number of factors could prevent us from achieving our objectives, including ongoing pricing pressures attributable to competition and macroeconomic conditions in the geographic markets that we service.

Revenue

We manage our sales activities primarily on a geographic basis in North America and three international geographic regions: (1) Africa and the Middle East, (2) Europe and Russia, and (3) Latin America and Asia Pacific. Revenue by region for the three and six months ended December 30, 2016 and January 1, 2016 and the related changes were shown in the table below:

| (In thousands, except percentages) | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------------|--------------------|-----------------|-----------|----------|------------------|-----------------|------------|----------|
| | December 2016 | January 1, 2016 | \$ Change | % Change | December 2016 | January 1, 2016 | \$ Change | % Change |
| North America | \$39,353 | \$31,844 | \$7,509 | 23.6 % | \$67,937 | \$67,064 | \$873 | 1.3 % |
| Africa and Middle East | 16,770 | 23,703 | (6,933) | (29.2)% | 31,119 | 50,991 | (19,872) | (39.0)% |
| Europe and Russia | 2,810 | 5,617 | (2,807) | (50.0)% | 7,317 | 12,059 | (4,742) | (39.3)% |
| Latin America and Asia Pacific | 9,603 | 9,252 | 351 | 3.8 % | 20,370 | 19,857 | 513 | 2.6 % |
| Total Revenue | \$68,536 | \$70,416 | \$(1,880) | (2.7)% | \$126,743 | \$149,971 | \$(23,228) | (15.5)% |

Our revenue in North America increased \$7.5 million, or 23.6%, during the second quarter of fiscal 2017 compared with the same quarter of fiscal 2016. North America revenue increased primarily due to a large increase in revenue from completion of private network projects, offset in part by a decrease in revenue from mobile operators in the region. On a year-to-date basis, North America revenue increased \$0.9 million, or 1.3%, compared with the same period in fiscal 2016. The year-to-date increase in North America was from private network customers, offset by a decrease in revenue from mobile operators.

Our revenue in Africa and the Middle East decreased \$6.9 million, or 29.2%, for the second quarter of fiscal 2017 compared with the same quarter of fiscal 2016. The decrease in revenue was primarily due to lower sales volume to our large operator customers in Africa, including the MTN Group. The decrease was also attributable to a large sale to

a private network customer in North Africa in the second quarter of fiscal 2016 that was not repeated in fiscal 2017.
On a

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year-to-date basis, Africa and the Middle East revenue decreased \$19.9 million, or 39.0%, compared with the same period in fiscal 2016. The year-to-date decrease in the region was also from lower sales to mobile operator customers in Africa and a decrease in revenue from private networks in the Middle East.

Revenue in Europe and Russia decreased \$2.8 million, or 50.0%, for the second quarter of fiscal 2017 compared with the same quarter of fiscal 2016. The decrease was primarily due to lower sales to some of our large customers in the region. On a year-to-date basis, revenue in Europe and Russia was down \$4.7 million, or 39.3%, from the same period in fiscal 2016. The decrease came from lower sales to our large customers in the region compared with the same periods in fiscal 2016.

Revenue in Latin America and Asia Pacific increased \$0.4 million, or 3.8%, during the second quarter of fiscal 2017 compared with the same quarter in fiscal 2016. The increase was primarily due to increased deliveries to our larger customers in Latin America, offset by decreased sales in Asia Pacific. On a year-to-date basis, revenue in Latin America and Asia Pacific increased \$0.5 million, or 2.6%, from the same period in fiscal 2016 for the same reasons.

| (In thousands, except percentages) | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------------|--------------------|-----------------|-----------|----------|-------------------|-----------------|------------|----------|
| | December 30, 2016 | January 1, 2016 | \$ Change | % Change | December 30, 2016 | January 1, 2016 | \$ Change | % Change |
| Product sales | \$45,958 | \$44,675 | \$1,283 | 2.9 % | \$80,682 | \$98,361 | \$(17,679) | (18.0)% |
| Services | 22,578 | 25,741 | (3,163) | (12.3)% | 46,061 | 51,610 | (5,549) | (10.8)% |
| Total Revenue | \$68,536 | \$70,416 | \$(1,880) | (2.7)% | \$126,743 | \$149,971 | \$(23,228) | (15.5)% |

Our revenue from product sales increased \$1.3 million, or 2.9%, for the second quarter of fiscal 2017 compared with the same quarter in fiscal 2016. Product volumes were higher in North America and Latin America, overcoming smaller decreases in other regions. Our services revenue decreased by \$3.2 million, or 12.3%, during the second quarter of fiscal 2017 compared with the same quarter of fiscal 2016. Most of the reduction was with customers in the Middle East, Africa, and Asia Pacific, partially offset by an increase in North America and Latin America.

Our revenue from product sales decreased by \$17.7 million, or 18.0%, for the first six months of fiscal 2017 compared with the same period in fiscal 2016. The decrease came primarily from weaker product sales in Africa, the Middle East, and Europe, offset in part by stronger sales in North America and Latin America. Our services revenue was down by \$5.5 million, or 10.8%, during the first six months of fiscal 2017 compared with the same period of fiscal 2016, due to reduced service activities in most regions, except for Asia Pacific where we had a small increase in service sales.

Gross Margin

| (In thousands, except percentages) | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------------|--------------------|-----------------|-----------|----------|-------------------|-----------------|------------|----------|
| | December 30, 2016 | January 1, 2016 | \$ Change | % Change | December 30, 2016 | January 1, 2016 | \$ Change | % Change |
| Revenue | \$68,536 | \$70,416 | \$(1,880) | (2.7)% | \$126,743 | \$149,971 | \$(23,228) | (15.5)% |
| Cost of revenue | 47,420 | 53,992 | (6,572) | (12.2)% | 88,262 | 112,536 | (24,274) | (21.6)% |
| Gross margin | \$21,116 | \$16,424 | \$4,692 | 28.6 % | \$38,481 | \$37,435 | \$1,046 | 2.8 % |
| % of revenue | 30.8 % | 23.3 % | | | 30.4 % | 25.0 % | | |
| Product margin % | 32.5 % | 25.4 % | | | 30.8 % | 28.3 % | | |
| Service margin % | 27.3 % | 19.7 % | | | 29.7 % | 18.6 % | | |

Gross margin for the three and six months ended December 30, 2016 increased by \$4.7 million, or 28.6%, and \$1.0 million, or 2.8%, respectively, compared with the three and six months ended January 1, 2016. On the quarter-to-date basis and on a year-to-date basis, the margin increase was from lower supply chain costs and improved margin rates in services businesses in all sectors.

Gross margin as a percentage of revenue increased in the second quarter of fiscal 2017 compared with the same quarter of fiscal 2016, primarily due to improved service margins and lower supply chain costs. Product margin as a percentage of product revenue increased from the prior year quarter primarily due to lower supply chain costs. Service margin as a percentage of service revenue increased primarily due to lower service costs leading to more profitable service business in most sectors.

On a year-to-date basis, gross margin as a percentage of revenue increased due to lower supply chain costs in the current year and improved service margins. Gross margin rates in services businesses in all sectors improved compared with the same period in fiscal 2016. Product margin as a percentage of product revenue increased over the same period in fiscal 2016 primarily due to reduced supply chain costs. We attributed the margin improvement in the service business and our reduced supply chain costs to process improvement programs within the Company along with our restructuring program implemented over the past several quarters.

Research and Development Expenses

| (In thousands, except percentages) | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------------|--------------------|---------|-----------------|---------|-------------------|----------|-----------------|---------|
| | December 31, 2016 | | January 1, 2017 | | December 31, 2016 | | January 1, 2017 | |
| | \$ | % | \$ | % | \$ | % | \$ | % |
| Research and development | \$4,475 | \$5,210 | Change | Change | \$9,418 | \$10,686 | Change | Change |
| % of revenue | 6.5 | 7.4 | (\$735) | (14.1)% | 7.4 | 7.1 | \$(1,268) | (11.9)% |

Our research and development expenses decreased \$0.7 million, or 14.1%, in the second quarter of fiscal 2017 compared with the same period in fiscal 2016. The decrease was primarily due to a \$0.4 million economic incentive grant credit in the second quarter of fiscal 2017 and a \$0.3 million reduction in product development costs.

Our research and development expenses decreased \$1.3 million, or 11.9%, in the first six months of fiscal 2017 compared with the same period in fiscal 2016. The decrease for the first six months of fiscal 2017 compared with the same period in fiscal 2016 was primarily due to a \$0.7 million economic incentive grant credit in the first six months of fiscal 2017 and a \$0.6 million reduction in product development costs.

Selling and Administrative Expenses

| (In thousands, except percentages) | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------------|--------------------|----------|-----------------|---------|-------------------|----------|-----------------|---------|
| | December 31, 2016 | | January 1, 2017 | | December 31, 2016 | | January 1, 2017 | |
| | \$ | % | \$ | % | \$ | % | \$ | % |
| Selling and administrative | \$14,056 | \$16,178 | Change | Change | \$29,243 | \$33,290 | Change | Change |
| % of revenue | 20.5 | 23.0 | \$(2,122) | (13.1)% | 23.1 | 22.2 | \$(4,047) | (12.2)% |

Our selling and administrative expenses declined \$2.1 million, or 13.1%, and \$4.0 million, or 12.2%, respectively, in the three and six months ended December 31, 2016 compared with the same periods in fiscal 2016. The decrease for the second quarter of fiscal 2017 compared with the same quarter in fiscal 2016 was primarily due to a \$1.9 million decrease in personnel and related expenses as a result of the restructuring programs we implemented, a \$0.5 million decrease in professional fees. The decreases were partially offset by a \$0.3 million increase in commission expenses. The decrease for the first six months of fiscal 2017 compared with the same period in fiscal 2016 was primarily due to a \$3.1 million decrease in personnel and related expenses, a \$0.7 million decrease in professional fees, and a \$0.4 million decrease in commission expenses. The decreases were partially offset by a \$0.2 million accelerated depreciation of Santa Clara building leasehold improvements.

Restructuring Charges

| (In thousands, except percentages) | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------------|--------------------|------|-----------------|--------|-------------------|----------|-----------------|--------|
| | December 31, 2016 | | January 1, 2017 | | December 31, 2016 | | January 1, 2017 | |
| | \$ | % | \$ | % | \$ | % | \$ | % |
| Restructuring Charges | \$72 | \$34 | Change | Change | \$232 | \$55 | Change | Change |
| | | | \$38 | 111.8% | \$177 | \$321.8% | | |

Our restructuring expenses consisted primarily of severance and related benefit charges, facilities costs related to obligations under non-cancelable leases for facilities that we ceased to use.

Interest Income, Interest Expense and Other Expense

| (In thousands, except percentages) | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------------|--------------------|-----------------|--------|---------|------------------|-----------------|----------|---------|
| | December 2016 | January 1, 2016 | \$ | % | December 2016 | January 1, 2016 | \$ | % |
| | | | Change | Change | | | Change | Change |
| Interest income | \$72 | \$ 55 | \$ 17 | 30.9 % | \$126 | \$ 137 | \$(11) | (8.0)% |
| Interest expense | \$(3) | \$(84) | \$ 81 | (96.4)% | \$(21) | \$(93) | \$ 72 | (77.4)% |
| Other income (expense) | \$5 | \$ — | \$ 5 | N/A | \$(177) | \$ — | \$(177) | N/A |

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

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

Other expense related to the foreign exchange gain (loss) on a dividend declared by our Nigeria entity (a partnership for U.S. tax purposes) to Aviat U.S. entity. The foreign exchange rate for Nigerian Naira dropped quickly in the first quarter of fiscal 2017, and stabilized in the second quarter of fiscal 2017.

Income Taxes

| (In thousands, except percentages) | Three Months Ended | | | | Six Months Ended | | | |
|--|--------------------|-----------------|----------|----------|------------------|-----------------|-----------|----------|
| | December 2016 | January 1, 2016 | \$ | % | December 2016 | January 1, 2016 | \$ | % |
| | | | Change | Change | | | Change | Change |
| Income (loss) from continuing operations before income taxes | \$2,587 | \$(5,027) | \$ 7,614 | (151.5)% | \$(484) | \$(6,552) | \$ 6,068 | (92.6)% |
| Provision for (benefit from) income taxes | \$865 | \$ 507 | \$ 358 | 70.6 % | \$(1,605) | \$ 495 | \$(2,100) | (424.2)% |

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. During the first quarter of fiscal 2017, we received a tax refund of \$3.7 million from the Inland Revenue Authority of Singapore related to an assessment we paid in fiscal year 2014 related to deductions claimed in tax years 2007 through 2010. This tax refund was recorded as a discrete tax benefit during the quarter. The determination of the effective tax rate reflects tax expense and benefit generated in certain jurisdictions. However, jurisdictions with a year-to-date loss where no tax benefit can be recognized are excluded from the annual effective tax rate.

Income from Discontinued Operations

Our discontinued operations consist of the WiMAX business, which was sold on September 2, 2011. The \$0.4 million income net of tax recognized in the first six months of fiscal 2016 was primarily due to recovery of certain WiMAX customer receivables that were previously written down.

Liquidity, Capital Resources and Financial Strategies

Sources of Cash

As of December 30, 2016, our total cash and cash equivalents were \$35.0 million of which \$17.9 million, or 51%, was held by entities outside the United States. Of the amount of cash and cash equivalents held by our foreign subsidiaries at December 30, 2016, \$13.3 million was held in jurisdictions where our undistributed earnings are indefinitely reinvested, and if repatriated, would be subject to U.S. taxes which are currently nominal.

As of December 30, 2016, our principal sources of liquidity consisted of the \$35.2 million in cash, cash equivalents and short-term investments, \$5.1 million of available credit under our \$30.0 million SVB Credit Facility which expires on June 30, 2018 and future collections of receivables from customers. As of December 30, 2016, we were in compliance with the amended financial covenants contained in the SVB Credit Facility. However, as a result of

uncertainty on our ability to continue to meet the financial covenants in the future and the fact that the SVB Credit Facility contains subjective acceleration clauses that could be triggered by the lender, the \$8.0 million and \$9.0 million borrowing was classified as a current liability as of December 30, 2016 and July 1, 2016. We regularly require letters of credit from some 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, credit facilities and cash proceeds from sale of our equity securities. During the first six months of fiscal 2017, our total cash and cash equivalents increased by \$4.5 million primarily due to \$8.8 million of cash provided by operating activities, offset by \$2.9 million of cash used for capital expenditures, \$1.0 million of cash used in net repayment of SVB Credit Facility, and \$0.5 million effect of exchange rate changes on cash and cash equivalents.

Cash provided by operating activities was \$8.8 million in the first six months of fiscal 2017 as compared to cash provided by operating activities of \$6.4 million in the first six months of fiscal 2016. Cash provided by operating activities is presented as net income (loss) adjusted for non-cash items and changes in operating assets and liabilities. Net income increased by \$7.8 million, net contribution of non-cash items to cash provided by operating activities decreased by \$2.5 million and net contribution of changes in operating assets and liabilities to cash provided by operating activities decreased by \$2.9 million for the first six months of fiscal 2017 as compared to the same period in fiscal 2016.

The \$7.8 million increase in net income includes a \$3.7 million tax refund from the Inland Revenue Authority of Singapore related to a \$13.2 million tax assessment we paid in fiscal year 2014. This tax refund was recorded as a discrete tax benefit when it was received during our first quarter of fiscal 2017.

The \$2.5 million decrease in the net contribution of non-cash items to cash provided by operating activities was primarily due to a \$1.2 million decrease in charges for inventory write-downs, a \$0.8 million decrease in bad debt expense, a \$0.2 million decrease in depreciation and amortization of property, plant and equipment, a \$0.1 million decrease in deferred income taxes, and a \$0.1 million decrease in loss on disposition of property, plant and equipment. Changes in operating assets and liabilities resulted in a net decrease of \$2.9 million to cash provided by operating activities for the first six months of fiscal 2017 as compared to the same period in 2016. Accounts receivable and unbilled costs fluctuate from period to period, depending on the amount, timing of sales and billing activities as well as cash collections. The fluctuations in accounts payable and accrued expenses were primarily due to the timing liabilities incurred and vendor payments. The change in inventories and in customer service inventories were primarily due to demand. The decrease in customer advance payments and unearned income was due to the timing of payment from customers and revenue recognition. We used \$2.4 million in cash during the first six months of fiscal 2017 on expenses related to restructuring liabilities.

During the remainder of fiscal year 2017, we expect to spend approximately \$1.0 million for capital expenditures, primarily on equipment for development and manufacturing of new products and to support customer managed services.

We believe that our existing cash and cash equivalents, the available line of credit under the SVB Credit Facility and future cash collections from customers will be sufficient to provide for our anticipated requirements for working capital and capital expenditures for at least the next 12 months. Our SVB Credit Facility expires on June 30, 2018. While we intend to renew and expect the SVB Credit Facility to be renewed, there can be no assurance that the SVB Credit Facility will be renewed. In addition, there can be no assurance that our business will generate cash flow from operations, we will be in compliance with the quarterly financial covenants contained in the SVB Credit Facility, or that we will have a sufficient borrowing base under such facility, or that anticipated operational improvements will be achieved. If we are not in compliance with the financial covenants or do not have sufficient eligible accounts receivable to support our borrowing base, the availability of our credit facility is not certain or may be diminished. Over the longer term, if we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations that may arise in the future, we may be required to sell assets, reduce capital expenditures, or obtain financing. If we need to obtain additional financing, we cannot be assured that it will be available on favorable terms, or at all. Our ability to make scheduled principal payments or pay interest on or refinance any future indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general

conditions in or affecting the microwave communications market and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

Restructuring Payments

We had liabilities for restructuring activities totaling \$2.6 million as of December 30, 2016, \$2.4 million of which was classified as current liability and expected to be paid out in cash over the next 12 months. We expect to fund these future payments with available cash and cash provided by operations.

Contractual Obligations and Commercial Commitments

The amounts disclosed in our fiscal 2016 Annual Report on Form 10-K filed with the SEC on September 9, 2016 include our commercial commitments and contractual obligations. During the first six months of fiscal 2017, no material changes occurred in our contractual obligations to purchase goods and services and to make payments under operating leases or our commercial commitments and contingent liabilities on outstanding letters of credit, guarantees and other arrangements as disclosed in our fiscal 2016 Annual Report on Form 10-K. Please refer to Note 11 Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Critical Accounting Estimates

For information about our critical accounting estimates, see the “Critical Accounting Estimates” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our fiscal 2016 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. Prior to the fourth quarter of fiscal 2015, these derivatives were designated as cash flow hedges. The effective portion of the gain or loss was initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, was subsequently reclassified into the income or expense line item to which the hedged transaction relates. Beginning the fourth quarter of fiscal 2015, we no longer prepared contemporaneous documentation of hedges for the new foreign exchange forward contracts we entered into. As a result, the foreign exchange hedges no longer qualified as cash flow hedges. The changes in fair value related to the hedges were recorded in income or expenses line items on our statements of operations. The last qualifying cash flow hedges occurred in the first quarter of fiscal 2016 and we reclassified \$41 thousands gain out of accumulated other comprehensive loss into cost of revenues during the first quarter of fiscal 2016.

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

As of December 30, 2016, we had foreign currency forward contracts outstanding with a total notional amount of \$6.0 million consisting of three different currencies. The following is a summary of the gross notional amount of our outstanding contracts grouped by the underlying foreign currency as of December 30, 2016:

| Currency | Notional Contract | Notional Contract |
|---|-------------------|-------------------|
| | Amount | Amount |
| | (Local Currency) | (USD) |
| | (In thousands) | |
| Japanese yen | 447,034 | \$ 4,274 |
| British pound | 250 | 308 |
| Australian dollar | 1,377 | 1,466 |
| Total of all currency forward contracts | | \$ 6,048 |

Net foreign exchange income (loss) recorded in our condensed consolidated statements of operations during the three and six months ended December 30, 2016 and 2016 was as follows:

| (In thousands) | Three Months Ended | | Six Months Ended | |
|--------------------------------------|--------------------|--------------|-------------------|-----------------|
| | December 31, 2016 | July 1, 2016 | December 31, 2016 | January 1, 2016 |
| Amount included in costs of revenues | \$(64) | \$ (361) | \$(280) | \$ (173) |
| Amount included in other expense | \$2 | \$ — | \$(208) | \$ — |

A 10% adverse change in currency exchange rates for our foreign currency derivatives held as of December 30, 2016 would have an impact of approximately \$0.6 million on the fair value of such instruments.

Certain of our international business was transacted in non-U.S. dollar currency. As discussed above, we utilize foreign currency hedging instruments to minimize the currency risk of international transactions. The impact of translating the assets and liabilities of foreign operations to U.S. dollars for the first six months of fiscal 2017 was \$1.1 million and was included as a component of stockholders' equity. As of December 30, 2016 and July 1, 2016, the cumulative translation adjustment decreased our stockholders' equity by \$12.3 million and \$11.2 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 \$35.0 million in total cash and cash equivalents as of December 30, 2016. Cash equivalents totaled \$18.1 million as of December 30, 2016 and were comprised of money market funds and bank certificates of deposit. Cash equivalents have been recorded at fair value on our balance sheet.

Our cash equivalents earn interest at fixed rates; therefore, changes in interest rates will not generate a gain or loss on these investments unless they are sold prior to maturity. Actual gains and losses due to the sale of our investments prior to maturity have been immaterial. The weighted average days to maturity for cash equivalents held as of December 30, 2016 was 75 days, and these investments had an average yield of 5.48% per annum. A 10% change in interest rates on our cash and cash equivalents is not expected to have a material impact on our financial position, results of operations or cash flows.

Exposure on Borrowings

During the first six months of fiscal 2017, we had \$8.0 million of borrowings outstanding under the SVB Credit Facility that incurred interest at the prime rate plus a spread of 0.50% to 1.50% with such spread determined based on our adjusted quick ratio. During the first six months of fiscal 2017, our weighted average interest rate was 4.03% and the interest expense on these borrowings was insignificant.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation, with participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 30, 2016, are effective to provide reasonable assurance that the information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

There were no changes to our internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) that occurred during our first six months of fiscal 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the 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

Please refer to Legal Proceedings under Note 11 Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Investors should carefully review and consider the information regarding certain factors which could materially affect our business, operating results, cash flows and financial condition set forth under Item 1A, Risk Factors, in our fiscal 2016 Annual Report on Form 10-K filed with the SEC on September 9, 2016.

We do not believe that there have been any other material additions or changes to the risk factors previously disclosed in our fiscal 2016 Annual Report on Form 10-K, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

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

Not applicable.

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 information required by this Item is set forth on the Exhibit Index (following the Signature section of this report) and is included, or incorporated by reference, in this Form 10-Q.

SIGNATURE

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

AVIAT NETWORKS, INC.

(Registrant)

Date: February 10, 2017

By: /s/ Eric Chang

Eric Chang

Vice President, Corporate Controller and Principal Accounting Officer

(Principal accounting officer and duly authorized officer)

EXHIBIT INDEX

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 |
| 3.2 | Amended and Restated Bylaws of Aviat Networks, Inc. (incorporate by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the SEC on October 2, 2015, File No. 001-33278) |
| 4.1 | Tax Benefit Preservation Plan, dated as of September 6, 2016, by and between Aviat Networks, Inc. and Computershare Inc., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on September 7, 2016, File No. 011-33278) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of 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 |