

AVIAT NETWORKS, INC.  
Form 10-K  
September 04, 2012

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

---

Form 10-K  
(Mark One)

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

For the fiscal year ended June 29, 2012

or

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

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.)

5200 Great America Parkway  
Santa Clara, California

(Address of principal executive offices)

95054

(Zip Code)

Registrant's telephone number, including area code: (408) 567-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, par value \$0.01 per share

Name of Each Exchange on Which Registered  
The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: AVIAT NETWORKS, INC. - Form 10-K

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. (Check one):

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

(Do not check if a 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

As of December 30, 2011 (the last business day of the registrant’s most recently completed second fiscal quarter), the aggregate market value of the registrant’s Common Stock held by non-affiliates was approximately \$82,515,000 based upon the closing price per share on the NASDAQ Global Market. For purposes of this calculation, the registrant has assumed that its directors and executive officers as of December 30, 2011 are affiliates.

The number of shares outstanding of the registrant’s Common Stock as of August 15, 2012 was 61,274,740 shares.

---

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant’s definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on or about November 13, 2012, which will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant’s fiscal year ended June 29, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K.

---

Table of Contents

AVIAT NETWORKS, INC.  
 ANNUAL REPORT ON FORM 10-K  
 For the Fiscal Year Ended June 29, 2012  
 Table of Contents

<u>PART I</u>		<u>4</u>
Item 1.	<u>Business</u>	<u>4</u>
Item 1A.	<u>Risk Factors</u>	<u>13</u>
Item 1B.	<u>Unresolved Staff Comments</u>	<u>22</u>
Item 2.	<u>Properties</u>	<u>22</u>
Item 3.	<u>Legal Proceedings</u>	<u>22</u>
Item 4.	Mine Safety Disclosures	<u>23</u>
<u>PART II</u>		<u>24</u>
Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
Item 6.	<u>Selected Financial Data</u>	<u>25</u>
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>41</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>76</u>
Item 9A.	<u>Controls and Procedures</u>	<u>76</u>
Item 9B.	<u>Other Information</u>	<u>77</u>
<u>PART III</u>		<u>78</u>
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>78</u>
Item 11.	<u>Executive Compensation</u>	<u>78</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>78</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>79</u>
Item 14.	<u>Principal Accountant Fees and Services</u>	<u>79</u>
<u>PART IV</u>		<u>80</u>
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	<u>80</u>
<u>SIGNATURES</u>		<u>85</u>

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including “Item 7. 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 forward-looking statements, including statements of, about, concerning or regarding: our plans, strategies and objectives for future operations; 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 Aviat Networks. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should therefore be considered in light of various important factors, including those set forth in this document.

Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include the following:

- continued price erosion as a result of increased competition in the microwave transmission industry;
- the impact of the customer, product and geographic mix of our product orders;
- the volume and timing of product orders and the timing of completion of our product deliveries and installations;
- our suppliers’ inability to perform and deliver on time as a result of their financial condition, component shortages or other supply chain constraints, such as the recent natural disasters in Japan and Thailand;
- our ability to meet projected new product development dates or anticipated cost reductions of new products;
- continued weakness in the global economy affecting customer spending;
- customer acceptance of new products;
- the ability of our subcontractors to timely perform;
- retention of our key personnel;
- our ability to manage and maintain key customer relationships;
- uncertain economic conditions in the telecommunications sector combined with operator and supplier consolidation;
- the timing of our receipt of payment for products or services from our customers;
- our failure to protect our intellectual property rights or defend against intellectual property infringement claims by others;
- the effects of currency and interest rate risks;
- the impact of political turmoil in countries where we have significant business; and
- the timing and size of future restructuring plans and write-offs.

Other factors besides those listed here also could adversely affect us. See “Item 1A. Risk Factors” in this Annual Report on Form 10-K 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 Annual Report on Form 10-K.

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 Annual Report on Form 10-K. 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, 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 forward-looking statements to

reflect further developments or information obtained after the date of filing of this Annual Report on Form 10-K or, in the case of any document incorporated by reference, the date of that document.

Table of Contents

PART I

Item 1. Business

Aviat Networks, Inc., together with its subsidiaries, is a global supplier of microwave networking solutions, backed by an extensive suite of professional services and support. Aviat Networks, Inc. may be referred to as the “Company,” “AVNW,” “Aviat Networks,” “we,” “us” and “our” in this Annual Report on Form 10-K.

We were incorporated in Delaware in 2006 to combine the businesses of Harris Corporation’s Microwave Communications Division (“MCD”) and Stratex Networks, Inc. (“Stratex”). On January 28, 2010, we changed our corporate name from Harris Stratex Networks, Inc. to Aviat Networks, Inc.

Our principal executive offices are located at 5200 Great America Parkway, Santa Clara, CA 95054, and our telephone number is (408) 567-7000. Our common stock is listed on the NASDAQ Global Market under the symbol AVNW. As of June 29, 2012, we employed approximately 980 people, compared with approximately 1,000 people as of July 1, 2011.

Overview and Description of the Business

We design, manufacture and sell a range of wireless networking products, solutions and services to mobile and fixed operators, private network operators, government agencies, transportation and utility companies, public safety agencies and broadcast network operators around the world. We sell products and services directly to our customers and also use agents and distributors.

Our products include point-to-point (PTP) digital microwave transmission systems designed for first/last mile access, middle mile/backhaul, and long distance trunking applications. We also provide network management solutions to enable our customers to deploy, monitor and manage our systems, third party equipment such as antennas, routers, multiplexers, etc, necessary to build and deploy a complete wireless network, and a full suite of turnkey support services.

Our wireless systems deliver regional and country-wide backbone in developing nations, where microwave radio installations provide 21st-century communications rapidly and economically. Rural communities, areas with rugged terrain and regions with extreme temperatures benefit from the ability to build an advanced, affordable communications infrastructure despite these challenges. A significant part of our international business consists of supplying wireless segments in small-pocket, remote, rural and metropolitan areas. High-capacity backhaul is one of the fastest growing wireless market segments and is a major opportunity for us. We see the increase in subscriber density and the forecasted growth and introduction of new bandwidth-hungry High Speed Packet Access (“HSPA”)/Long Term Evolution (“LTE”) mobile broadband services as major drivers for growth in this market. Revenue from our North America and international regions represented approximately 37% and 63%, respectively, of our revenue in fiscal 2012, 35% and 65%, respectively, of our revenue in fiscal 2011, and 38% and 62%, respectively, of our revenue in fiscal 2010. Information about our revenue attributable to our geographic regions are set forth in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 11 of the accompanying consolidated financial statements in this Annual Report on Form 10-K.

Market Overview

Wireless transmission networks currently are constructed using microwave radios and other equipment to interconnect cell sites, switching systems, wireline transmission systems and other fixed access facilities. Wireless transmission networks range in size from a single transmission link connecting two buildings to complex networks consisting of thousands of wireless links. The architecture of a network is influenced by several factors, including the available radio frequency spectrum, coordination of frequencies with existing infrastructure, application requirements, environmental factors and local geography.

In recent years, there has been an increase in capital spending in the wireless telecommunications industry. In addition, the overall demand for high-speed wireless transmission products has been growing at a higher rate than the wireless industry as a whole. We believe that this growth in capital spending and demand is directly related to a growing global subscriber base for mobile wireless communications services, emergence of new high capacity mobile devices and data-intensive applications and need for new services delivered from next-generation networks capable of delivering broadband services. We see a variety of factors that drive demand for infrastructure investment and

especially in microwave backhaul:

Expanding mobile coverage. Mobile operators around the world are continually being challenged to meet the needs of a growing mobile subscriber base flooded by the tremendous growth of broadband applications and devices. They are installing more cell sites to expand geographic coverage and to fill in spots where user coverage is insufficient.

Upgrading mobile backhaul. Many mobile operators are modernizing their mobile radio access networks (RANs)

4

---

## Table of Contents

with either 3G (HSPA) or 4G (HSPA+ and LTE) technologies. Mobile backhaul networks will also be upgraded with the RAN moving from T1/E1 copper to fiber or microwave to deliver higher user bandwidth.

- Increasing backhaul capacity: With RAN upgrades, operators are increasing cell site backhaul capacity from a typical 8 Mbps (4 E1/T1) at an edge site to over 40 Mbps. At hubs or aggregation sites, where traffic from multiple edge sites is combined, backhaul capacity may need to be as high as 2 Gbps.
- Deploying small cells backhaul. More and more mobile operators are experiencing a capacity crunch. Outdoor small cells are gaining momentum as one of the best ways to remedy this issue. Industry analysts forecast the main deployment of small cells will start in 2014-2015, and that microwave will be one of the preferred solutions for small cells backhaul to be widely used by mobile operators.

• Meeting government requirements. In some countries, governments require that service providers deploy 4G in underserved, rural areas as a condition of obtaining an LTE spectrum license.

• Using microwave in other vertical markets. In addition to mobile backhaul, we see increasing demand for microwave technology in other vertical markets, such as utility, public safety, financial institution and broadcast, etc.

Many utility companies around the world are actively investing in Smart Grid solutions and energy demand management, which drive the need for network modernization and increased capacity of networks.

In the public safety vertical market, whether it is for improving border patrol or emergency services for local or state police, access to timely information or enhanced communications is critical. Mobile video and access to centralized data servers at the scene of an incident requires a high bandwidth network. Such demands drive the need for new generation microwave radios with high reliability, high performance, maximum system redundancy and strong security.

New opportunities have emerged in some other niche markets in non-mobile sectors as well, such as the low latency application for high frequency trading in financial industry, for which demand has been growing at a higher rate than the wireless industry, as a whole. With lower latency and shorter line of sight distance between transmission sites than fiber, microwave technology has been selected over fiber by more and more financial institutions for such applications. There is also the broadcast market, where terrestrial TV broadcasting is progressively going digital on a global basis and has presented new opportunities for microwave vendors.

These factors are combining to create a range of opportunities for continued investment in backhaul and transport networks favoring microwave technology. As we focus on our execution of the future generations of our technology, our goal is to make wireless a viable choice for an ever broadening range of network types.

### Strategy

Over the past year, we have made significant strides in transitioning our company to focus on our cost effective core microwave transmission business. We offer and will continue to improve upon our microwave transmission solutions that deliver the network performance needed to support next generation services and enable a smooth transition from legacy networks to all IP.

Newer generation 4G technologies require high-speed packet infrastructures. To address this requirement, we have enhanced our core product offering by building on our market leading Eclipse Packet Node platform by adding new features and enhancements and leveraging technology in third party products to provide a complete IP network solution.

We look to retain our position as a wireless transmission technology leader with Eclipse Packet Node by ensuring our capabilities anticipate the evolving needs of our customers and the corresponding network technology use. The future roadmap for Eclipse evolves the platform toward a full convergence solution with embedded capabilities enabling a migration path to an all IP network. We believe that the Eclipse solution for evolution to IP is the lowest risk, lowest cost, and most flexible solution available because it builds incrementally on the customer's existing investment, delivering a smooth "hybrid" to full IP migration path for customers globally. The IP evolution capabilities are specifically enabled by the modular additions. This incremental plug-in approach allows operators to move toward an all IP based system at their own pace without the risk, downtime or expense associated with a complete replacement or the forced migration to another platform.

Our strategy includes partnering with companies with technical expertise in areas outside of our core competencies to meet our customers' demand for an end-to-end solution. Our partner product strategy enables us to go beyond wireless



transmission to combat the vendor consolidation trend whereby customers are “buying more from fewer vendors” and in doing so providing expanding market share opportunity. A comprehensive solutions portfolio comprised of our wireless product and intelligent partner products can allow us to compete with vendors that offer turnkey solution portfolios and serve to focus our R&D efforts on core competency wireless innovations. Having a broader portfolio will enable us to further differentiate our

5

---

## Table of Contents

offerings from other independent microwave equipment suppliers.

We expect to continue to serve and expand upon our existing customer base and develop business with new customers. We have sold more than 750,000 microwave radios in over 140 countries and are present in more than 300 mobile networks worldwide. We intend to leverage our customer base, our longstanding presence in many countries, our distribution channels, our comprehensive product line, our superior customer service and our turnkey solution capability to continue to sell existing and new products and services to current customers.

### Products and Solutions

We offer a comprehensive product and solutions portfolio that meets the needs of service providers and network operators in every region of the world and addresses a broad range of applications, frequencies, capacities and network topologies. Our product categories include point-to-point microwave radios that are licensed (subject to local frequency regulatory requirements), lightly-licensed and license-exempt (operating in license-exempt frequencies), and element and network management software. In addition, we provide end-to-end turnkey broadband telecommunications systems, including complete design, deployment, maintenance, and managed network services, while being an attentive and adaptable partner for our customers — a key competitive differentiator for us.

**Broad product and solution portfolio.** We offer a comprehensive suite of wireless transmission networking systems for microwave and millimeter-wave networking applications. Our solution consists of tailored offerings of our own wireless products and our own integrated ancillary equipment or that of other manufacturers and providers of element and network management systems and professional services. These solutions address a wide range of transmission frequencies, ranging from 2.4 MHz to 90 GHz, and a wide range of transmission capacities, ranging up to 4 gigabits per second. The major product families included in these solutions are Eclipse, Aviat WTM 3000, Aviat WTM 6000 and ProVision, our network management software.

**Low total cost of ownership.** Our wireless-based solutions offer a relatively low total cost of ownership, including savings on the combined costs of initial acquisition, installation and ongoing operation and maintenance. Our latest generation system designs reduce rack space requirements, require less power, are software-configurable to reduce spare parts requirements, and are simple to install, operate, upgrade and maintain. Our advanced wireless features can also enable operators to save on related costs, including spectrum fees and tower rental fees.

**Futureproof network.** Our solutions are designed to protect the network operator's investment by incorporating software-configurable capacity upgrades and plug-in modules that provide a smooth migration path to emerging technologies, such as carrier Ethernet and IP-based networking, without the need for costly equipment substitutions and additions. Our products include key technologies we believe will be needed by operators for their network evolution to support new broadband services.

**Flexible, easily configurable products.** We use flexible architectures with a high level of software configurable features. This design approach produces high-performance products with reusable components while at the same time allowing for a manufacturing strategy with a high degree of flexibility, improved cost and reduced time-to-market. The software features of our products offer our customers a greater degree of flexibility in installing, operating and maintaining their networks.

**Comprehensive network management.** We offer a range of flexible network management solutions, from element management to enterprise-wide network management and service assurance that we can optimize to work with our wireless systems.

**Complete professional services.** In addition to our product offerings, we provide network planning and design, site surveys and builds, systems integration, installation, maintenance, network monitoring, training, customer service and many other professional services. Our services cover the entire evaluation, purchase, deployment and operational cycle and enable us to be one of the few complete turnkey solution providers in the industry.

### Business Operations

#### Sales and Service

We believe that a direct and continuing relationship with service providers is a competitive advantage in attracting new customers and satisfying existing ones. As a result, we offer our products and services through our own direct sales, service and support organization, which allows us to closely monitor the needs of our customers. We have offices in Canada and the United States in North America; Brazil, Argentina and Mexico in Central and South

America; Slovenia, Poland, France, Austria, Amsterdam and the United Kingdom in Europe; Nigeria, Kenya, Ivory Coast, Algeria and South Africa in Africa; the United Arab Emirates, Saudi Arabia and Lebanon in the Middle East; and Australia, Bangladesh, India, New Zealand, Indonesia, China, Malaysia, the Philippines, Singapore and Thailand in the Asia Pacific region. Our local offices provide us with a better understanding of our customers' needs and enable us to respond to local issues and unique local requirements.

Table of Contents

We also have informal, and in some cases formal, relationships with original equipment manufacturers or OEMs and system integrators. Such relationships increase our ability to pursue a limited number of major contract awards each year. In addition, such relationships provide our customers with easier access to financing and integrated system providers with a variety of equipment and service capabilities. In selected countries, we also market our products through independent agents and distributors, as well as through system integrators.

We have repair and service centers in India, Nigeria, Ghana, Brazil, Mexico, the Philippines, the United Kingdom and the United States. Our international headquarters in Singapore provides sales and customer support for the Asia Pacific region from this facility. We have customer service and support personnel who provide customers with training, installation, technical support, maintenance and other services on systems under contract. We install and maintain customer equipment directly in some cases and contract with third-party service providers in other cases, depending on the equipment being installed and customer requirements.

The specific terms and conditions of our product warranties vary depending upon the product sold and country in which we do business. On direct sales, warranty periods generally start on the delivery date and continue for one to two years.

**Manufacturing**

Our global manufacturing strategy is an entirely outsourced manufacturing model using multiple contract manufacturers in both the United States and Asia locations. Our strategy is to use a select number of contract manufacturers for all products. We continue to perform our system integration and customer acceptance and testing in an Aviat facility co-located with one of our contract manufacturers in the United States.

In accordance with our global logistics requirements and customer geographic distribution, we are engaged with contract manufacturing partners in Asia and the United States. All manufacturing operations have been certified to International Standards Organization 9001, a recognized international quality standard. We have also been certified to the TL 9000 standard, a telecommunication industry-specific quality system standard.

**Backlog**

Our backlog by geographic region is as follows:

	June 29, 2012	July 1, 2011
	(In millions)	
North America	\$93.9	\$98.5
International	114.6	120.5
Total backlog	\$208.5	\$219.0

Backlog for our products generally consists of contracts or purchase orders for both product deliveries scheduled within the next 12 months and extended service warranty. We regularly review our backlog to ensure that our customers continue to honor their purchase commitments and have the financial means to purchase and deploy our products and services in accordance with the terms of their purchase contracts.

We expect to substantially fill the entire backlog as of June 29, 2012 during fiscal 2013, but we cannot be assured that this will occur. Product orders in our current backlog are subject to changes in delivery schedules or to cancellation at the option of the purchaser without significant penalty. Accordingly, although useful for scheduling production, backlog as of any particular date may not be a reliable measure of sales for any future period because of the timing of orders, delivery intervals, customer and product mix and the possibility of changes in delivery schedules and additions or cancellations of orders. The backlog figures exclude advance payments and unearned income amounts. As of June 29, 2012, no customers accounted for 10% or more of our total backlog.

**Customers**

Principal customers for our products and services include domestic and international wireless/mobile service providers, OEMs, and private network users such as public safety agencies, government institutions, and utility, pipeline, railroad and other industrial enterprises that operate wireless networks.

During fiscal 2012, the Mobile Telephone Networks Group, or MTN Group, in Africa accounted for 17% of our total revenue compared with 14% in fiscal 2011 and 17% in fiscal 2010. We have entered into separate and distinct contracts with MTN Group as well as separate arrangements with MTN Group subsidiaries. None of such other contracts on an individual basis are material to our operations. The loss of all MTN Group business could adversely

affect our results of operations, cash

7

---

Table of Contents

flows and financial position.

Although we have a large customer base, during any given fiscal year or quarter a small number of customers may account for a significant portion of our revenue. In certain circumstances, we sell our products to service providers through OEMs, which provide the service providers with access to financing and in some instances, protection from fluctuations in international currency exchange rates.

#### International Business

The following tables present measures of our revenue in international markets as a percentage of total revenue and international revenue:

Description	Percentage of Total Revenue	
Revenue from U.S. exports or manufactured abroad:		
Fiscal 2012	64	%
Fiscal 2011	67	%
Fiscal 2010	67	%

Description	Percentage of Non U.S. Revenue	
Revenue from U.S. exports:		
Fiscal 2012	1	%
Fiscal 2011	5	%
Fiscal 2010	7	%

Description	Percentage of Total Revenue	
Revenue from operations conducted in local international currencies:		
Fiscal 2012	21	%
Fiscal 2011	18	%
Fiscal 2010	16	%

Description	Percentage of Total Revenue	
Revenue from non-U.S. countries representing more than 5% of total revenue:		
Fiscal 2012 Nigeria	21	%
Fiscal 2012 France	6	%
Fiscal 2011 Nigeria	17	%
Fiscal 2010 Nigeria	18	%
Fiscal 2010 Saudi Arabia	7	%

The functional currency of our subsidiaries located in the United Kingdom, Singapore, Mexico, Algeria and New Zealand is the U.S. dollar so the effect of foreign currency changes have not had a significant effect on our revenue from those countries. Direct export sales, as well as sales from international subsidiaries, are primarily denominated in U.S. dollars. International operations represented 38% and 43% of our long-lived assets as of June 29, 2012 and as of July 1, 2011.

We conduct international marketing activities through subsidiaries operating in Europe, Central and South America, Africa and Asia. We also have established marketing organizations and several regional sales offices in these same geographic areas.

We use indirect sales channels, including dealers, distributors and sales representatives, in the marketing and sale of some lines of products and equipment internationally. These independent representatives may buy for resale or, in

some cases, solicit orders from commercial or governmental customers for direct sales by us. Prices to the ultimate customer in many instances may be recommended or established by the independent representative and may be above or below our list prices. These independent representatives generally receive a discount from our list prices and are free to set the final sales prices paid by the customer.

8

---

## Table of Contents

A significant portion of our exports are paid from letters of credit issued to us, with the balance carried on an open account. In addition, significant international government contracts generally require us to provide performance guarantees. We have not historically had to pay out on the performance guarantees.

The particular economic, social and political conditions for business conducted outside the U.S. differ from those encountered by domestic businesses. We believe that the overall business risk for our international business as a whole is somewhat greater than that faced by our domestic operations as a whole. For a discussion of the risks we are subject to as a result of our international operations, see "Item 1A. Risk Factors" in this Annual Report on Form 10-K.

### Competition

The wireless access, backhaul and interconnection business is a specialized segment of the wireless telecommunications industry that is sensitive to technological advancements and is extremely competitive. Some of our competitors have more extensive engineering, manufacturing and marketing capabilities and greater financial, technical and personnel resources than us. Many of our competitors may have greater name recognition, broader product lines (some including non-wireless telecommunications equipment and managed services), a larger installed base of products and longer-standing customer relationships. In addition, some competitors offer seller financing which is a competitive advantage in the current economic environment.

Although successful product and systems development is not necessarily dependent on substantial financial resources, many of our competitors are significantly larger than us and can maintain higher levels of expenditures for research and development. In addition, a portion of our overall market is addressed by large mobile infrastructure providers who bundle microwave radios with other mobile network equipment, such as cellular base stations or switching systems, and offer a full range of services. This part of the market is generally not open to independent microwave suppliers like us.

We also compete with a number of smaller independent private and public specialist companies, who typically leverage new technologies and low-cost models, but usually are not able to offer a complete solution including turnkey services in all regions of the world.

Our principal microwave competitors include large mobile infrastructure manufacturers such as Alcatel-Lucent, Ericsson, NEC, Huawei and ZTE, as well as a number of other smaller public and private microwave specialists companies such as Ceragon, DragonWave, SAIE and Exalt. Some of our competitors are OEMs or systems integrators through which we sometimes distribute and sell products and services to end users.

We concentrate on market opportunities that we believe are compatible with our resources, overall technological capabilities and objectives. Principal competitive factors are cost-effectiveness, product quality and reliability, technological capabilities, service, ability to meet delivery schedules and the effectiveness of dealers in international areas. We believe that the combination of our network and systems engineering support and service, global reach, technological innovation, agility and close collaborative relationships with our customers, are the key competitive strengths for us. However, customers may still make decisions based primarily on factors such as price, financing terms and/or past or existing relationships, where it may be difficult for us to compete effectively or profitably.

### Research, Development and Engineering

We believe that our ability to enhance our current products, develop and introduce new products on a timely basis, maintain technological competitiveness and meet customer requirements is essential to our success. Accordingly, we allocate, and intend to continue to allocate, a significant portion of our resources to research and development efforts in two major product areas: backhaul solutions and network management systems. In addition, we are investing in key innovation that will help separate these products from the competition. The majority of such research and development resources will be used for point-to-point digital microwave radio systems for access, backhaul, trunking and license-exempt applications.

Our research, development and engineering expenditures totaled \$36.0 million, or 8.1% of revenue in fiscal 2012, \$40.5 million, or 9.0% of revenue in fiscal 2011, and \$31.1 million, or 6.7% of revenue in fiscal 2010.

Research, development and engineering are primarily directed to the development of new products and to building technological capability. We are an industry innovator and intend to continue to focus significant resources on product development in an effort to maintain our competitiveness and support our entry into new markets. We maintain development programs intended to result in new products, such as additions to our WTM3000 and Eclipse product



platforms.

Our product development team numbered 224 as of June 29, 2012, located in Santa Clara, California; Wellington, New Zealand; Singapore and Ljubljana, Slovenia.

9

---

## Table of Contents

### Raw Materials and Supplies

Because of the range of our products and services, as well as the wide geographic dispersion of our facilities, we use numerous sources for the wide array of raw materials needed for our operations and for our products, such as electronic components, printed circuit boards, metals and plastics. We are dependent upon suppliers and subcontractors for a large number of components and subsystems and upon the ability of our suppliers and subcontractors to adhere to customer or regulatory materials restrictions and meet performance and quality specifications and delivery schedules.

Our strategy for procuring raw material and supplies includes dual sourcing on strategic assemblies and components. In general, we believe this reduces our risk with regard to the potential financial difficulties in our supply base. In some instances, we are dependent upon one or a few sources, either because of the specialized nature of a particular item or because of local content preference requirements pursuant to which we operate on a given project. Examples of sole or limited source categories include metal fabrications and castings, for which we own the tooling and therefore limit our supplier relationships, and MMICs (a type of integrated circuit used in manufacturing microwave radios), which we procure at volume discount from a single source. Our supply chain plan includes mitigation plans for alternative manufacturing sources and identified alternate suppliers.

While we have been affected by performance issues of some of our suppliers and subcontractors, we have not been materially adversely affected by the inability to obtain raw materials or products. In general, any performance issues causing short-term material shortages are within the normal frequency and impact range experienced by high-tech manufacturing companies. They are due primarily to the highly technical nature of many of our purchased components.

Looking ahead, we anticipate standard lead times for our raw materials and supplies.

### Patents and Other Intellectual Property

We consider our patents and other intellectual property rights, in the aggregate, to constitute an important asset. We own a portfolio of patents, trade secrets, know-how, confidential information, trademarks, copyrights and other intellectual property. We also license intellectual property to and from third parties. As of August 15, 2012, we held 119 U.S. patents and 114 international patents and had 58 U.S. patent applications pending and 87 international patent applications pending. We do not consider our business to be materially dependent upon any single patent, license or other intellectual property right, or any group of related patents, licenses or other intellectual property rights. From time to time, we might engage in litigation to enforce our patents and other intellectual property or defend against claims of alleged infringement. Any of our patents, trade secrets, trademarks, copyrights and other proprietary rights could be challenged, invalidated or circumvented, or may not provide competitive advantages. Numerous trademarks used on or in connection with our products are also considered to be valuable assets.

In addition, to protect confidential information, including our trade secrets, we require our employees and contractors to sign confidentiality and invention assignment agreements. We also enter into non-disclosure agreements with our suppliers and appropriate customers to limit access to and disclosure of our proprietary information.

While our ability to compete may be affected by our ability to protect our intellectual property, we believe that, because of the rapid pace of technological change in the wireless telecommunications industry, our innovative skills, technical expertise and ability to introduce new products on a timely basis will be more important in maintaining our competitive position than protection of our intellectual property. Trade secret, trademark, copyright and patent protections are important but must be supported by other factors such as the expanding knowledge, ability and experience of our personnel, new product introductions and product enhancements. Although we continue to implement protective measures and intend to vigorously defend our intellectual property rights, there can be no assurance that these measures will be successful.

### Environmental and Other Regulations

Our facilities and operations, in common with those of our industry in general, are subject to numerous domestic and international laws and regulations designed to protect the environment, particularly with regard to wastes and emissions. We believe that we have complied with these requirements and that such compliance has not had a material adverse effect on our results of operations, financial condition or cash flows. Based upon currently available information, we do not expect expenditures to protect the environment and to comply with current environmental laws

and regulations over the next several years to have a material impact on our competitive or financial position, but can give no assurance that such expenditures will not exceed current expectations. From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, which is commonly known as the Superfund Act and equivalent laws. Such notices may assert potential liability for cleanup costs at various sites, which include sites owned by us, sites we

Table of Contents

previously owned and treatment or disposal sites not owned by us, allegedly containing hazardous substances attributable to us from past operations. We are not presently aware of any such liability that could be material to our business, financial condition or operating results, but due to the nature of our business and environmental risks, we cannot provide assurance that any such material liability will not arise in the future.

Electronic products are subject to environmental regulation in a number of jurisdictions. Equipment produced by us is subject to domestic and international requirements requiring end-of-life management and/or restricting materials in products delivered to customers. We believe that we have complied with such rules and regulations, where applicable, with respect to our existing products sold into such jurisdictions.

Radio communications are also subject to governmental regulation. Equipment produced by us is subject to domestic and international requirements to avoid interference among users of radio frequencies and to permit interconnection of telecommunications equipment. We believe that we have complied with such rules and regulations with respect to our existing products, and we intend to comply with such rules and regulations with respect to our future products.

Reallocation of the frequency spectrum also could impact our business, financial condition and results of operations.

Employees

As of June 29, 2012 we employed approximately 980 people, compared with 1,000 as of the end of fiscal year 2011 and 1,380 as of the end of fiscal 2010. Approximately 455 of our employees are located in the U.S. We also utilized approximately 76 independent contractors as of June 29, 2012. None of our employees in the U.S. are represented by a labor union. In certain international subsidiaries, our employees are represented by workers' councils or statutory labor unions. In general, we believe that our relations with our employees are good.

Executive Officers of the Registrant

The name, age, position held with us, and principal occupation and employment during at least the past 5 years for each of our executive officers as of September 4, 2012, are as follows:

Table of Contents

Name and Age	Position Currently Held and Past Business Experience
Michael A. Pangia, 51	<p>Mr. Pangia has been our President and Chief Executive Officer and a member of the Board since July 18, 2011. From March 2009 to July 2011, he served as our Chief Sales Officer responsible for company-wide operations of the global sales and services organization. Prior to joining Aviat Networks, from 2008 to 2009, Mr. Pangia served as Senior Vice President, global sales operations and strategy at Nortel, where he was responsible for all operational aspects of the global sales function. From 2006 to 2008, he was President of Nortel's Asia region where his key responsibilities included sales and overall business management for all countries where Nortel did business in the region.</p>
Edward J. ("Ned") Hayes, 57	<p>Mr. Hayes joined Aviat Networks in October 2011 and serves as our Senior Vice President and Chief Financial Officer responsible for the finance and IT organizations. Prior to joining Aviat Networks, from 2006 through October 2011, Mr. Hayes was the Chief Financial Officer at Pillar Data Systems, Inc., an enterprise data storage company, which was acquired by Oracle Corporation. Before joining Pillar Data, he served as Executive Vice President and Chief Financial Officer of Quantum Corporation, a data storage company. Mr. Hayes currently serves as a senior advisor to the CEO of Super Micro Computer, Inc., where he previously served as an independent director and Chair of the Audit Committee. He also currently served as an independent director and non-executive Chairman of the Board of Alaska Communications Systems, a provider of high-speed wireless, mobile broadband, internet, local, long-distance and advanced broadband solutions for businesses and consumers in Alaska.</p>
Paul A. Kennard, 61	<p>Mr. Kennard joined our company as Chief Technology Officer in January 2007 when Harris Corporation's Microwave Communications Division ("MCD") and Stratex Networks, Inc. merged. In 1996 he joined Stratex Networks as Vice President, Engineering.</p>
Meena L. Elliott, 49	<p>Ms. Elliott was appointed Senior Vice President, General Counsel and Secretary on September 1, 2011. Since July 2009, she has served as Vice President, General Counsel and Secretary. She joined our company as Associate General Counsel and Assistant Secretary in January 2007 when Harris MCD and Stratex Networks merged. Ms. Elliott joined Harris Corporation's MCD as Division Counsel in March 2006. Prior to joining MCD, she was Chief Counsel at the Department of Commerce from 2002 to 2006.</p>
Heinz H. Stumpe, 57	<p>Mr. Stumpe was appointed Chief Sales Officer on June 25, 2012. Before his appointment as Chief Sales Officer, Mr. Stumpe was our Senior Vice President and Chief Operating Officer since June 30, 2008. Previously, he was Vice President, Global Operations for Aviat Networks and Stratex Networks. He joined Stratex Networks as Director, Marketing in 1996. He was promoted to Vice President, Global Accounts in 1999, Vice President, Strategic Accounts in 2002 and Vice President, Global Operations in April 2006.</p>
Shaun McFall, 52	<p>Mr. McFall has been our Chief Marketing Officer since July 2008. Previously, from 2000 to 2008, he served as Vice President, Marketing for Aviat Networks and Stratex Networks. He has been with us since 1989.</p>

There is no family relationship between any of our executive officers or directors, and there are no arrangements or understandings between any of our executive officers or directors and any other person pursuant to which any of them was appointed or elected as an officer or director, other than arrangements or understandings with our directors.

**Web site Access to Aviat Networks' Reports; Available Information**

General. We maintain an Internet Web site at <http://www.aviatnetworks.com>. Our annual reports on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on our Web site as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Our website and the information posted thereon are not incorporated into this Annual Report on Form 10-K or any current or other periodic report that we file or furnish to the SEC.

We will also provide the reports in electronic or paper form, free of charge upon request. All reports we file with or furnish to the SEC are also available free of charge via EDGAR through the SEC's website at <http://www.sec.gov>. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room, 100 F. Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Additional information relating to our business and operations, is set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

Table of Contents

Item 1A. Risk Factors

In addition to the risks described elsewhere in this Annual Report on Form 10-K and in certain of our other filings with the SEC, the following risks and uncertainties, among others, could cause our actual results to differ materially from those contemplated by us or by any forward-looking statement contained herein. Prospective and existing investors are strongly urged to carefully consider the various cautionary statements and risks set forth in this Annual Report on Form 10-K and our other public filings.

We have many business risks including those related to our financial performance, investments in our common stock, operating our business and legal matters. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are not aware of or focused on may also impair our business operations. If any of these risks actually occur, our financial condition and results of operations could be materially and adversely affected.

Our success will depend on new products introduced to the marketplace in a timely manner, successfully completing product transitioning and achieving customer acceptance.

The market for our products is characterized by rapid technological change, evolving industry standards and frequent new product introductions. Our future success will depend, in part, on continuous, timely development and introduction of new products and enhancements that address evolving market requirements and are attractive to customers. If we fail to develop or introduce on a timely basis new products or product enhancements or features that achieve market acceptance, our business may suffer. Another factor impacting our future success is the growth in the customer demand of our new products. Rapidly changing technology, frequent new products introductions and enhancements, short product life cycles and changes in customer requirements characterize the markets for our products. We believe that successful new product introductions provide a significant competitive advantage because of the significant resources committed by customers in adopting new products and their reluctance to change products after these resources have been expended. We have spent, and expect to continue to spend, significant resources on internal research and development to support our effort to develop and introduce new products and enhancements. As we transition to new product platforms, we may face significant risk that the development of our new products may not be accepted by our current customers. To the extent that we fail to introduce new and innovative products that are adopted by customers, we could fail to obtain an adequate return on these investments and could lose market share to our competitors, which could be difficult or impossible to regain. Similarly we may face decreased revenue, gross margins and profitability due to a rapid decline in sales of current products as customers hold spending to focus purchases on new product platforms. We could incur significant costs in completing the transition, including costs of inventory writedowns of the current product as customers transition to new product platforms. In addition, products or technologies developed by others may render our products noncompetitive or obsolete and result in significant reduction in orders from our customers and the loss of existing and prospective customers.

We have not been profitable and must increase our revenues and reduce costs if we hope to achieve sustainable profitability.

As measured under U.S. generally accepted accounting principles (“U.S. GAAP”), we have incurred a net loss in each of the last 6 fiscal years. We incurred net losses of \$24.1 million in fiscal 2012, \$90.5 million in fiscal 2011 and \$130.2 million in fiscal 2010 and have been unprofitable since we became a public company in January 2007. We also have consistently reported losses from operations, although we have generated cash from operations in fiscal 2012, 2010 and 2009.

Throughout fiscal 2012 we experienced strong price competition for new business in all regions while major customer consolidations also put pressure on revenue and gross margin. We saw pricing pressures in all markets, particularly in international markets where we compete for the business of large, carrier customers. In all markets, telecommunication operating companies consolidated through mergers or acquisitions, leading to fewer, but larger customers. In order to counter pricing pressures, we invested heavily in product improvements to reduce unit costs and enhance product features, exited manufacturing facilities and shifted production to contract manufacturers, and worked with our vendors to attain more favorable pricing. If we are unable to reduce product unit costs associated with enhanced product features, including payments to contract manufacturers and other suppliers, we may not

achieve profitability.

We cannot be certain that these actions or others that we may take in the future will result in operating profitability or net income as determined under U.S. GAAP.

We face strong competition for maintaining and improving our position in the market, which can adversely affect our revenue growth and operating results.

13

---



## Table of Contents

The wireless access, interconnection and backhaul business is a specialized segment of the wireless telecommunications industry and is extremely competitive. We expect competition in this segment to increase. Some of our competitors have more extensive engineering, manufacturing and marketing capabilities and significantly greater financial, technical and personnel resources than we have. In addition, some of our competitors have greater name recognition, broader product lines, a larger installed base of products and longer-standing customer relationships. Our competitors include established companies, such as Alcatel-Lucent, Eltek ASA, Ericsson, NEC, Huawei and ZTE, as well as a number of other public and private companies such as Ceragon, DragonWave, SAIE and Exalt. Some of our competitors are OEMs or systems integrators through whom we market and sell our products, which means our business success may depend on these competitors to some extent. One or more of our largest customers could internally develop the capability to manufacture products similar to those manufactured or outsourced by us and, as a result, the demand for our products and services may decrease.

In addition, we compete for acquisition and expansion opportunities with many entities that have substantially greater resources than we have. Our competitors may enter into business combinations in order to accelerate product development or to compete more aggressively and we may lack the resources to meet such enhanced competitions. Our ability to compete successfully will depend on a number of factors, including price, quality, availability, customer service and support, breadth of product line, product performance and features, rapid time-to-market delivery capabilities, reliability, timing of new product introductions by us, our customers and competitors, the ability of our customers to obtain financing and the stability of regional sociopolitical and geopolitical circumstances, and the ability of large competitors to obtain business by providing more seller financing especially for large transactions. We can give no assurances that we will have the financial resources, technical expertise, or marketing, sales, distribution, customer service and support capabilities to compete successfully, or that regional sociopolitical and geographic circumstances will be favorable for our successful operation.

Our average sales prices may decline in the future.

Currently, we are experiencing, and are likely to continue to experience, declining sales prices. This price pressure is likely to result in downward pricing pressure on our products and services. As a result, we are likely to experience declining average sales prices for our products. Our future profitability will depend upon our ability to improve manufacturing efficiencies, reduce costs of materials used in our products, and to continue to introduce new lower-cost products and product enhancements. If we are unable to respond to increased price competition, our business, financial condition and results of operations will be harmed. Because customers frequently negotiate supply arrangements far in advance of delivery dates, we may be required to commit to price reductions for our products before we are aware of how, or if, cost reductions can be obtained. As a result, current or future price reduction commitments and any inability on our part to respond to increased price competition, could harm our business, financial condition and results of operations.

The effects of the global financial and economic downturn may have significant effects on our customers and suppliers that would result in material adverse effects on our business, operating results, financial condition and stock price.

The effects of the global financial and economic downturn include, among other things, significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions and/or fluctuations in equity and currency values worldwide, and concerns that the worldwide economy has entered into or may enter into a further prolonged recessionary period.

This financial downturn has adversely affected and may continue to materially adversely affect our customers' access to capital and/or willingness to spend capital on our products, and/or their levels of cash liquidity and/or their ability and/or willingness to pay for products that they will order or have already ordered from us, or result in their ceasing operations. Further, we have experienced an increasing number of our customers, principally in emerging markets, requesting longer payment terms, lease or vendor financing arrangements, longer terms for the letters of credit securing purchases of our products and services, which could potentially negatively impact our orders, revenue conversion cycle, and cash flows.

In seeking to reduce their expenses, we have also seen significant pressure from our customers to lower prices for our products as they try to improve their operating performance and procure additional capital equipment within their

reduced budget levels. To the extent that we lower prices on our products and services, our orders, revenues, and gross margins may be negatively impacted. Additionally, certain emerging markets are particularly sensitive to pricing as a key differentiator. Where price is a primary decision driver, we may not be able to affectively compete or we may chose not to compete due to unacceptable margins.

In addition, the financial crisis may materially adversely affect our suppliers' access to capital and liquidity with which to maintain their inventories, production levels, and/or product quality, could cause them to raise prices or lower production

Table of Contents

levels, or result in their ceasing operations. Further, with respect to the credit facility discussed under “Liquidity, Capital Resources and Financial Strategies” in Item 7 of this Annual Report on form 10-K, if the global financial crisis adversely affects Silicon Valley Bank, our ability to access the funds available under the credit facility could be materially adversely affected.

The potential effects of these economic factors are difficult to forecast and mitigate. As a consequence, our operating results for a particular period are difficult to predict, and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing effects could have a material adverse effect on our business, results of operations, and financial condition and could adversely affect our stock price.

Part of our inventory may be written off, which would increase our cost of revenues. In addition, we may be exposed to inventory-related losses on inventories purchased by our contract manufacturers.

During fiscal 2012, 2011 and 2010, we recorded charges to reduce the carrying value of our inventory to the lower of cost or market totaling \$3.4 million, \$14.5 million and \$29.6 million, respectively. Such charges equaled 0.8%, 3.2%, and 6.4% of our revenue in fiscal 2012, 2011 and 2010, respectively. These charges were primarily due to excess and obsolete inventory resulting from product transitioning and discontinuance.

Inventory of raw materials, work in-process or finished products may accumulate in the future, and we may encounter losses due to a variety of factors, including:

- rapid technological change in the wireless telecommunications industry resulting in frequent product changes;
- the need of our contract manufacturers to order raw materials that have long lead times and our inability to estimate exact amounts and types of items thus needed, especially with regard to the frequencies in which the final products ordered will operate; and
- cost reduction initiatives resulting in component changes within the products.

Further, our inventory of finished products may accumulate as the result of cancellation of customer orders or our customers’ refusal to confirm the acceptance of our products. Our contract manufacturers are required to purchase inventory based on manufacturing projections we provide to them. If actual orders from our customers are lower than these manufacturing projections, our contract manufacturers will have excess inventory of raw materials or finished products which we would be required to purchase. In addition, we require our contract manufacturers from time to time to purchase more inventory than is immediately required, and to partially assemble components, in order to shorten our delivery time in case of an increase in demand for our products. In the absence of such increase in demand, we may need to compensate our contract manufacturers. If we are required to purchase excess inventory from our contract manufacturers or otherwise compensate our contract manufacturers for purchasing excess inventory, our business, financial condition and results of operations could be materially adversely affected. We also may purchase components or raw materials from time to time for use by our contract manufacturers in the manufacturing of our products. These purchases are based on our own manufacturing projections. If our actual orders are lower than these manufacturing projections, we may accumulate excess inventory which we may be required to write-off. If we are forced to write-off this inventory other than in the normal course of business, our business, financial condition, results of operations could be materially adversely affected.

If we fail to accurately forecast our manufacturing requirements or customer demand, we could incur additional costs which would adversely affect our business and results of operations.

If we fail to accurately predict our manufacturing requirements or forecast customer demand, we may incur additional costs of manufacturing and our gross margins and financial results could be adversely affected. If we overestimate our requirements, our contract manufacturers may experience an oversupply of components and assess us charges for excess or obsolete components that could adversely affect our gross margins. If we underestimate our requirements, our contract manufacturers may have inadequate inventory or components, which could interrupt manufacturing and result in higher manufacturing costs, shipment delays, damage to customer relationships and/or our payment of penalties to our customers. Our contract manufacturers may also have other customers and may not have sufficient capacity to meet all of their customer’s needs, including ours, during periods of excess demand.

Our sales cycle may be lengthy, and the time for installation and implementation of our products within our customers’ networks may extend over more than one period, which can make our operating results difficult to predict.

We anticipate difficulty in accurately predicting the timing and amounts of revenue generated from sales of our products. The establishment of a business relationship with a potential customer is a lengthy process, generally taking several months and sometimes longer. Following the establishment of the relationship, the negotiation of purchase terms can be time-consuming, and a potential customer may require an extended evaluation and testing period.

15

---

Table of Contents

We expect that our product sales cycle, which results in our products being designed into our customers' networks, could take 12 to 24 months. A number of factors can contribute to the length of the sales cycle, including technical evaluations of our products and the design process required to integrate our products into our customers' networks. In anticipation of product orders, we may incur substantial costs before the sales cycle is complete and before we receive any customer payments. As a result, in the event that a sale is not completed or is canceled or delayed, we may have incurred substantial expenses, making it more difficult for us to become profitable or otherwise negatively impacting our financial results. Furthermore, because of our lengthy sales cycle, our receipt of revenue from our selling efforts may be substantially delayed, our ability to forecast our future revenue may be more limited and our revenue may fluctuate significantly from quarter to quarter.

Once a purchase agreement has been executed, the timing and amount of revenue, if applicable, may remain difficult to predict. The completion of the installation and testing of the customer's networks and the completion of all other suppliers network elements are subject to the customer's timing and efforts, and other factors outside our control which may prevent us from making predictions of revenue with any certainty and could cause us to experience substantial period-to-period fluctuations in our operating results.

If we fail to effectively manage our contract manufacturer relationships, we could incur additional costs or be unable to timely fulfill our customer commitments, which would adversely affect our business and results of operations and, in the event of an inability to fulfill commitments, would harm our customer relationships.

We outsource all of our manufacturing and a substantial portion of our repair service operations to independent contract manufacturers and other third parties. Our contract manufacturers typically manufacture our products based on rolling forecasts of our product needs that we provide to them on a regular basis. The contract manufacturers are responsible for procuring components necessary to build our products based on our rolling forecasts, building and assembling the products, testing the products in accordance with our specifications and then shipping the products to us. We configure the products to our customer requirements, conduct final testing and then ship the products to our customers. Although we currently partner with multiple major contract manufacturers, there can be no assurance that we will not encounter problems as we become increasingly dependent on contract manufacturers to provide these manufacturing services or that we will be able to replace a contract manufacturer that is not able to meet our demand. In addition, if we fail to effectively manage our relationships with our contract manufacturers or other service providers, or if one or more of them should not fully comply with their contractual obligations or should experience delays, disruptions, component procurement problems or quality control problems, then our ability to ship products to our customers or otherwise fulfill our contractual obligations to our customers could be delayed or impaired which would adversely affect our business, financial results and customer relationships.

We depend on sole or limited sources for some key components and failure to receive timely delivery of any of these components could result in deferred or lost sales.

In some instances, we are dependent upon one or a few sources, either because of the specialized nature of a particular item or because of local content preference requirements pursuant to which we operate on a given project. Examples of sole or limited sourcing categories include metal fabrications and castings, for which we own the tooling and therefore limit our supplier relationships, and MMICs (a type of integrated circuit used in manufacturing microwave radios), which we procure at a volume discount from a single source. Our supply chain plan includes mitigation plans for alternative manufacturing sources and identified alternate suppliers. However, if these alternatives cannot address our requirements when our existing sources of these components fail to deliver them on time, we could suffer delayed shipments, canceled orders, and lost or deferred revenues, as well as material damage to our customer relationships. Should this occur, our operating results, cash flows and financial condition could be adversely affected to a material degree.

Credit and commercial risks and exposures could increase if the financial condition of our customers declines.

A substantial portion of our sales are to customers in the telecommunications industry. These customers may require their suppliers to provide extended payment terms, direct loans or other forms of financial support as a condition to obtaining commercial contracts. We expect that we may provide or commit to financing where appropriate for our business. Our ability to arrange or provide financing for our customers will depend on a number of factors, including our credit rating, our level of available credit and our ability to sell off commitments on acceptable terms. In addition,

if local currencies cannot be hedged, we have an inherent exposure in our ability to convert monies at favorable rates or to U.S. dollars. More generally, we expect to routinely enter into long-term contracts involving significant amounts to be paid by our customers over time. Pursuant to these contracts, we may deliver products and services representing an important portion of the contract price before receiving any significant payment from the customer. As a result of the financing that may be provided to customers and our commercial risk exposure under long-term contracts, our business could be adversely affected if the financial condition of our customers erodes. Over the past few years, certain of our customers have filed with the courts seeking protection under the bankruptcy or

Table of Contents

reorganization laws of the applicable jurisdiction, or have experienced financial difficulties. As a result of the more challenging economic environment, we have seen an increase in the number of our customers experiencing such difficulties since 2008, and we expect that trend to continue if the global economy deteriorates further in 2013. That trend may be exacerbated in many emerging markets, where our customers are being affected not only by recession, but by deteriorating local currencies and a lack of credit. Upon the financial failure of a customer, we may experience losses on credit extended and loans made to such customer, losses relating to our commercial risk exposure and the loss of the customer's ongoing business. If customers fail to meet their obligations to us, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our results of operations and financial position.

Our customers may not pay for products and services in a timely manner, or at all, which would decrease our cash flows and adversely affect our working capital.

Our business requires extensive credit risk management that may not be adequate to protect against customer nonpayment. A risk of non-payment by customers is a significant focus of our business. We expect a significant amount of future revenue to come from international customers, many of whom will be startup telecom operators in developing countries. We do not generally expect to obtain collateral for sales, although we require letters of credit or credit insurance as appropriate for international customers. For information regarding the percentage of revenue attributable to certain key customers, see the risks discussed in the factor below titled "Because a significant amount of our revenue may come from a limited number of customers, the termination of any of these customer relationships may adversely affect our business." Our historical accounts receivable balances have been concentrated in a small number of significant customers. Unexpected adverse events impacting the financial condition of our customers, bank failures or other unfavorable regulatory, economic or political events in the countries in which we do business may impact collections and adversely impact our business, require increased bad debt expense or receivable write-offs and adversely impact our cash flows, financial condition and operating results, which could also result in a breach of our bank covenants.

Our effective tax rate could be highly volatile and could adversely affect our operating results.

Our future effective tax rate may be adversely affected by a number of factors, many of which are outside of our control, including:

- the jurisdictions in which profits are determined to be earned and taxed;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
  - changes in share-based compensation expense;
- changes in the valuation of our deferred tax assets and liabilities;
- changes in domestic or international tax laws or the interpretation of such tax laws;
- the resolution of issues arising from tax audits with various tax authorities;
- the tax effects of purchase accounting for acquisitions and restructuring charges that may cause fluctuations between reporting periods; and
- taxes that may be incurred upon a repatriation of cash from foreign operations.

Any significant increase in our future effective tax rates could impact our results of operations for future periods adversely.

Because a significant amount of our revenue may come from a limited number of customers, the termination of any of these customer relationships may adversely affect our business.

Sales of our products and services historically have been concentrated in a small number of customers. Principal customers for our products and services include domestic and international wireless/mobile service providers, OEMs, as well as private network users such as public safety agencies; government institutions; and utility, pipeline, railroad and other industrial enterprises that operate broadband wireless networks. We had revenue from a single external customer that exceeded 10% of our total revenue during fiscal 2012, 2011 and 2010. Although we have a large

customer base, during any given quarter a small number of customers may account for a significant portion of our revenue.

It is possible that a significant portion of our future product sales also could be concentrated in a limited number of customers. In addition, product sales to major customers have varied widely from period to period. The loss of any existing customer, a significant reduction in the level of sales to any existing customer, or our inability to gain additional customers



Table of Contents

could result in declines in our revenue or an inability to grow revenue. In addition, consolidation of our potential customer base could result in purchasing decision delays as consolidating customers integrate their operations and could generally reduce our opportunities to win new customers to the extent that the number of potential customers decreases. Furthermore, as our customers become larger, they may have more leverage to negotiate better pricing which could adversely affect our revenues and gross margins.

Our quarterly results may be volatile, which can adversely affect the trading price of our common stock.

Our quarterly operating results may vary significantly for a variety of reasons, many of which are outside our control.

These factors could harm our business and include, among others:

- seasonality in the purchasing habits of our customers;
- the volume and timing of product orders and the timing of completion of our product deliveries and installations;
- our ability and the ability of our key suppliers to respond to changes on demand as needed;
- margin variability;
- our suppliers' inability to perform and deliver on time as a result of their financial condition, component shortages or other supply chain constraints;
- retention of key personnel;
- our sales cycles can be lengthy;
- litigation costs and expenses;
- continued timely rollout of new product functionality and features;
- increased competition resulting in downward pressures on the price of our products and services;
- unexpected delays in the schedule for shipments of existing products and new generations of the existing platforms;
- failure to realize expected cost improvement throughout our supply chain;
- order cancellations or postponements in product deliveries resulting in delayed revenue recognition;
- seasonality in the purchasing habits of our customers;
- restructuring and organization of our operations;
- war and acts of terrorism;
- natural disasters;
- the ability of our customers to obtain financing to enable their purchase of our products;
- fluctuations in international currency exchange rates;
- regulatory developments including denial of export and import licenses; and
- general economic conditions worldwide that affect demand and financing for microwave telecommunications networks;
- the timing and size of future restructuring plans and write-offs.

Our quarterly results are expected to be difficult to predict and delays in product delivery or closing a sale can cause revenue, margins and net income or loss to fluctuate significantly from anticipated levels. A substantial portion of our contracts are completed in the latter part of a quarter and a significant percentage of these are large orders. Because a significant portion of our cost structure is largely fixed in the short term, revenue shortfalls tend to have a disproportionately negative impact on our profitability and can increase our inventory. The number of large new transactions also increases the risk of fluctuations in our quarterly results because a delay in even a small number of these transactions could cause our quarterly revenues and profitability to fall significantly short of our predictions. In addition, we may increase spending in response to competition or in pursuit of new market opportunities.

Accordingly, we cannot provide assurances that we will be able to achieve profitability in the future or that if profitability is attained, that we will be able to sustain profitability, particularly on a quarter-to-quarter basis.

Due to the significant volume of international sales we expect, we may be susceptible to a number of political, economic and geographic risks that could harm our business.

We are highly dependent on sales to customers outside the U.S. In fiscal 2012, 2011 and 2010, our sales to international customers accounted for 64%, 67% and 67%, respectively, of total revenue. Also, significant portions of our international sales are in less developed countries. Our international sales are likely to continue to account for a large percentage of our products and services revenue for the foreseeable future. As a result, the occurrence of any international, political, economic or geographic event that adversely affects our business could result in a significant

decline in revenue. In addition, compliance

18

---

## Table of Contents

with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international jurisdictions. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, data privacy and filtering requirements, anti-corruption laws, such as the Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and anti-competition regulations, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brand, our international expansion efforts, our ability to attract and retain employees, our business, and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

Some of the risks and challenges of doing business internationally include:

- unexpected changes in regulatory requirements;
- fluctuations in international currency exchange rates including its impact on unhedgeable currencies and our forecast variations for hedgeable currencies;
- imposition of tariffs and other barriers and restrictions;
- management and operation of an enterprise spread over various countries;
- the burden of complying with a variety of laws and regulations in various countries;
- application of the income tax laws and regulations of multiple jurisdictions, including relatively low-rate and relatively high-rate jurisdictions, to our sales and other transactions, which results in additional complexity and uncertainty;
- general economic and geopolitical conditions, including inflation and trade relationships;
- war and acts of terrorism;
- kidnapping and high crime rate;
- natural disasters;
- currency exchange controls; and
- changes in export regulations.

While these factors and the impacts of these factors are difficult to predict, any one or more of them could adversely affect our business, financial condition and results of operations in the future.

We may undertake further restructuring activities which may adversely impact our operations, and we may not realize all of the anticipated benefits of these activities or any future restructurings.

We continue to evaluate our business to determine the potential need to realign our resources as we continue to transform our business in order to achieve desired cost savings in an increasingly competitive market. In prior years, we have undertaken a series of restructuring of our operations involving, among other things and depending on the year, reductions of our workforce, the relocation of our corporate headquarters and the reduction and outsourcing of manufacturing activities. We incurred restructuring charges of \$2.3 million, \$15.4 million and \$7.1 million, respectively, in fiscal 2012, 2011 and 2010.

We have based our restructuring efforts on assumptions and plans regarding the appropriate cost structure of our businesses based on our product mix and projected sales among other factors. These assumptions may not be correct and we may not be able to operate in accordance with our plans. Should this occur we may determine that we must incur additional restructuring charges in the future. Moreover, we cannot assure you that we will realize all of the anticipated benefits of the restructuring or that we will not further reduce or otherwise adjust our workforce or exit, or disposal of, certain businesses and protect lines. Any decision to further limit investment, exit, or dispose of businesses may result in the recording of additional restructuring charges. As a result, the costs actually incurred in connection with the restructuring efforts may be higher than originally planned and may not lead to the anticipated cost savings and/or improved results. For example, if we consolidate additional facilities in the future, we may incur additional restructuring and related expenses, which could have a material adverse effect on our business, financial condition or results of operations.

In addition, employees, whether or not directly affected by restructuring, may seek employment with our business partners, customers or competitors. We cannot assure you that the confidential nature of our proprietary information

will not be compromised by any such employees who terminate their employment with us. Further, we believe that our future success will depend in large part upon our ability to attract, motivate and retain highly skilled personnel. We may have difficulty attracting and retaining such personnel as a result of a perceived risk of future workforce reductions, and we may terminate the employment of employees as part of a restructuring and later determine that such employees were important to the success of

Table of Contents

the ongoing business.

Consolidation within the telecommunications industry could result in a decrease in our revenue.

The telecommunications industry has experienced significant consolidation among its participants, and we expect this trend to continue. Some operators in this industry have experienced financial difficulty and have filed, or may file, for bankruptcy protection. Other operators may merge and one or more of our competitors may supply products to the customers of the combined company following those mergers. This consolidation could result in purchasing decision delays and decreased opportunities for us to supply products to companies following any consolidation. This consolidation may also result in lost opportunities for cost reduction and economies of scale. In addition, see the risks discussed in the factor above titled “Because a significant amount of our revenue may come from a limited number of customers, the termination of any of these customer relationships may adversely affect our business.”

If we fail to develop and maintain distribution and licensing relationships, our revenue may decrease.

Although a majority of our sales are made through our direct sales force, we also will market our products through indirect sales channels such as independent agents, distributors, OEMs and systems integrators. These relationships enhance our ability to pursue major contract awards and, in some cases, are intended to provide our customers with easier access to financing and a greater variety of equipment and service capabilities, which an integrated system provider should be able to offer. We may not be able to maintain and develop additional relationships, however, if additional relationships are developed, they may not be successful. Furthermore, as we consider increasing licensing revenue based on upgraded technology, we may not be successful in transitioning customers to the planned software upgrades. Our inability to establish or maintain these distribution and licensing relationships could restrict our ability to market our products and thereby result in significant reductions in revenue. If these revenue reductions occur, our business, financial condition and results of operations would be harmed.

If sufficient radio frequency spectrum is not allocated for use by our products, and we fail to obtain regulatory approval for our products, our ability to market our products may be restricted.

Radio communications are subject to regulation by U.S. and foreign laws and international treaties. Generally, our products need to conform to a variety of United States and international requirements established to avoid interference among users of transmission frequencies and to permit interconnection of telecommunications equipment. Any delays in compliance with respect to our future products could delay the introduction of such products.

In addition, we will be affected by the allocation and auction of the radio frequency spectrum by governmental authorities both in the U.S. and internationally. Such governmental authorities may not allocate sufficient radio frequency spectrum for use by our products or we may not be successful in obtaining regulatory approval for our products from these authorities. Historically, in many developed countries, the unavailability of frequency spectrum has inhibited the growth of wireless telecommunications networks. In addition, to operate in a jurisdiction, we must obtain regulatory approval for our products. Each jurisdiction in which we market our products has its own regulations governing radio communications. Products that support emerging wireless telecommunications services can be marketed in a jurisdiction only if permitted by suitable frequency allocations, auctions and regulations. The process of establishing new regulations is complex and lengthy. If we are unable to obtain sufficient allocation of radio frequency spectrum by the appropriate governmental authority or obtain the proper regulatory approval for our products, our business, financial condition and results of operations may be harmed.

Our business is subject to changing regulation of corporate governance, public disclosure, and anti-bribery measures that have resulted in increased costs and may continue to result in additional costs in the future and/or potential liabilities.

We are subject to rules and regulations of federal and state regulatory authorities, The NASDAQ Stock Market LLC and financial market entities charged with the protection of investors and the oversight of companies whose securities are publicly traded, and foreign and domestic legislative bodies. During the past few years, these entities, including the Public Company Accounting Oversight Board, the SEC, NASDAQ, and the government of the United Kingdom, have issued requirements, laws and regulations and continue to develop additional requirements, laws and regulations, such as those in response to laws enacted by Congress, most notably the Sarbanes-Oxley Act of 2002 (“SOX”), and recent laws and regulations regarding bribery and unfair competition. Our efforts to comply with these requirements and regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses

and a diversion of substantial management time and attention from revenue-generating activities to compliance activities.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs potentially necessitated by ongoing revisions to our disclosure and

Table of Contents

governance practices. Finally, if we are unable to ensure compliance with such requirements, laws, or regulations, we may be subject to costly prosecution and liability, and resulting reputational harm, from such noncompliance. Our products are used in critical communications networks which may subject us to significant liability claims. Because our products are used in critical communications networks, we may be subject to significant liability claims if our products do not work properly. The provisions in our agreements with customers that are intended to limit our exposure to liability claims may not preclude all potential claims. In addition, any insurance policies we have may not adequately limit our exposure with respect to such claims. We warrant to our current customers that our products will operate in accordance with our product specifications. If our products fail to conform to these specifications, our customers could require us to remedy the failure or could assert claims for damages. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Any such claims, whether or not successful, would be costly and time-consuming to defend, and could divert management's attention and seriously damage our reputation and our business.

If we are unable to adequately protect our intellectual property rights, we may be deprived of legal recourse against those who misappropriate our intellectual property.

Our ability to compete will depend, in part, on our ability to obtain and enforce intellectual property protection for our technology in the U.S. and internationally. We rely upon a combination of trade secrets, trademarks, copyrights, patents and contractual rights to protect our intellectual property. In addition, we enter into confidentiality and invention assignment agreements with our employees, and enter into non-disclosure agreements with our suppliers and appropriate customers so as to limit access to and disclosure of our proprietary information. We cannot give assurances that any steps taken by us will be adequate to deter misappropriation or impede independent third-party development of similar technologies. In the event that such intellectual property arrangements are insufficient, our business, financial condition and results of operations could be harmed. We have significant operations in the U.S., United Kingdom, Singapore and New Zealand, and outsourcing arrangements in Asia and the U.S. We cannot provide assurances that the protection provided to our intellectual property by the laws and courts of particular nations will be substantially similar to the protection and remedies available under U.S. law. Furthermore, we cannot provide assurances that third parties will not assert infringement claims against us based on intellectual property rights and laws in other nations that are different from those established in the U.S.

We may be subject to litigation regarding intellectual property associated with our wireless business; this litigation could be costly to defend and resolve, and could prevent us from using or selling the challenged technology.

The wireless telecommunications industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in often protracted and expensive litigation. Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Such litigation or claims could result in substantial costs and diversion of resources. In the event of an adverse result in any such litigation, we could be required to pay substantial damages, cease the use and transfer of allegedly infringing technology or the sale of allegedly infringing products and expend significant resources to develop non-infringing technology or obtain licenses for the infringing technology. We can give no assurances that we would be successful in developing such non-infringing technology or that any license for the infringing technology would be available to us on commercially reasonable terms, if at all. This could have a materially adverse effect on our business, results of operation, financial condition, competitive position and prospects. Anti-takeover provisions of Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a third-party acquisition of us difficult.

Because we are a Delaware corporation, the anti-takeover provisions of Delaware law could make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders. We are subject to the provisions of Section 203 of the General Corporation Law of Delaware, which prohibits us from engaging in certain business combinations, unless the business combination is approved in a prescribed manner. In addition, our amended and restated certificate of incorporation and amended and restated bylaws also contain certain provisions that may make a third-party acquisition of us difficult, including the ability of the board of directors to issue preferred stock and the requirement that nominations for directors and other proposals by stockholders must be made in advance

of the meeting at which directors are elected or the proposals are voted upon.

We may face risks related to pending litigation over the restatement of our financial statements.

In connection with our identification of the material weaknesses in internal control described in our fiscal 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 25, 2008, we have had to restate our



## Table of Contents

interim consolidated financial statements for the first three fiscal quarters of fiscal 2008 (the quarters ended March 28, 2008, December 28, 2007 and September 28, 2007) and our consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005 in order to correct errors contained in those financial statements. We also announced on July 30, 2008 that investors should no longer rely on our previously issued financial statements for those periods.

We and certain of our former executive officers and directors were named in a federal securities class action complaint filed on September 15, 2008 in the United States District Court for the District of Delaware by plaintiff Norfolk County Retirement System on behalf of an alleged class of purchasers of our securities from January 29, 2007 to July 30, 2008, including stockholders of Stratex Networks, Inc. who exchanged shares of Stratex Networks, Inc. for our shares as part of the merger between Stratex Networks and the Microwave Communications Division of Harris Corporation (“MCD”). That action related to the restatement of our prior financial statements as discussed in our fiscal 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 25, 2008. The actions were consolidated on June 5, 2009 and a consolidated class action complaint was filed on July 29, 2009 (“Dutton”).

On May 31, 2011, the Company and the other named defendants entered into a stipulation of settlement (“Stipulation”) with respect to the Dutton action, pursuant to which the Company caused \$8.9 million to be paid into a settlement fund. The entire settlement amount was covered by insurance and was assumed by the insurance company. The hearing for final approval of the settlement took place on September 16, 2011 and the Court entered a judgment and Order of Dismissal with Prejudice on October 11, 2011.

Certain of our former executive officers and directors were named in a complaint filed on July 18, 2011 in the United States District Court for the District of Delaware by plaintiff Howard Taylor. Plaintiff purportedly brought this action derivatively on behalf of Aviat Networks, Inc. which is named as a nominal defendant. Plaintiff brings a claim for breach of fiduciary duty against the officer and director defendants based on the allegations of securities law violation alleged in the class action described above and also alleges that the defendants caused us to acquire MCD at an inflated price. Plaintiff seeks to recover unspecified damages and other relief on behalf of Aviat Networks, as well as payment for costs and attorneys' fees. We filed a motion to dismiss on October 3, 2011 and are waiting for the court decision following the hearing on our motion to dismiss which was held on June 4, 2012. We intend to defend our interests in the litigation vigorously. Currently, we are unable to determine whether a loss is probable or to reasonably estimate the loss amount related to this matter. See “Item 3. Legal Proceedings” in this Annual Report on Form 10-K.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

As of June 29, 2012, we lease approximately 319,000 square feet of facilities worldwide, with approximately 61% in North America, mostly in California, Texas and North Carolina. Our corporate headquarters are located in Santa Clara, California, and consist of a building approximately 129,000 square feet. The lease for our headquarters expires in April 2020. We also lease approximately 52,000 square feet of office and assembly facilities in San Antonio and Austin, Texas. Internationally, we lease approximately 125,000 square feet of facilities throughout Europe, Central America, South America, Africa and Asia regions, including offices in Singapore, Slovenia, Philippine Islands, India, Mexico, South Africa, Nigeria, Ivory Coast, France, Kenya, Poland, Australia and Bangladesh. In addition, we own approximately 110,000 square feet of facilities in Wellington, New Zealand and Lanarkshire, Scotland.

During fiscal 2011, we announced the closing of our 60,000 square-foot Morrisville, North Carolina office which formerly served as our headquarters. A sub-tenant for the entire 60,000 square feet of space took occupancy of the premises in early fiscal 2012. We continue to have an on-going lease commitment for this location ending in fiscal 2015. Also during fiscal 2011, we vacated approximately 29,000 square feet of our 40,000 square-foot Bangalore, India facility as result of our moving R&D functions from Bangalore to Trzin, Slovenia. A sub-tenant now occupies all 29,000 square feet of available space. We continue to have an on-going lease commitment for this location ending in fiscal 2013.

We maintain our facilities in good operating condition, and believe that they are suitable and adequate for our current and projected needs. We continuously review our anticipated requirements for facilities and may, from time to time, acquire additional facilities, expand existing facilities, or dispose of existing facilities or parts thereof, as we deem necessary.

For more information about our lease obligations, see “Note 14. Commitments and Contingencies” of notes to consolidated financial statements, which are included in Item 8 in this Annual Report on Form 10-K.

### Item 3. Legal Proceedings

Table of Contents

Certain of our former executive officers and directors were named in a complaint filed on July 18, 2011 in the United States District Court for the District of Delaware by plaintiff Howard Taylor. Plaintiff purports to bring this action derivatively on behalf of Aviat Networks, which is named as a nominal defendant. Plaintiff brings a claim for breach of fiduciary duty against the officer and director defendants based on the allegations of securities law violations alleged in the class action described above and also alleges that the defendants caused us to acquire MCD at an inflated price. Plaintiff seeks to recover unspecified damages and other relief on behalf of Aviat Networks, as well as payment of costs and attorneys fees. We filed a motion to dismiss on October 3, 2011 and are waiting for the court decision following the hearing on our motion to dismiss which was held on June 4, 2012. We intend to defend our interests in the litigation vigorously. Currently we are unable to determine whether a loss is probable or to reasonably estimate the loss amount related to this matter.

From time to time, we may be involved in various legal claims and litigation that arise in the normal course of our operations. While the results of such claims and litigation cannot be predicted with certainty, we currently believe that we are not a party to any litigation the final outcome of which is likely to have a material adverse effect on our financial position, results of operations or cash flows. However, should we not prevail in any such litigation; it could have a material adverse impact on our operating results, cash flows or financial position.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market Information and Price Range of Common Stock

Our Common Stock, with a par value of \$0.01 per share, is listed and primarily traded on the NASDAQ Global Market ("NASDAQ"), under the ticker symbol AVNW (prior to January 28, 2010 our ticker symbol was HSTX). There was no established trading market for shares of our Common Stock prior to January 29, 2007.

According to the records of our transfer agent, as of August 15, 2012, there were approximately 5,295 holders of record of our Common Stock. The following table sets forth the high and low closing prices for a share of our Common Stock on NASDAQ Global Market system for the periods indicated during our fiscal years 2012 and 2011:

	Fiscal 2012		Fiscal 2011	
	High (\$)	Low (\$)	High (\$)	Low (\$)
First Quarter	4.21	2.29	4.28	3.46
Second Quarter	2.66	1.62	5.25	4.00
Third Quarter	3.06	1.77	6.37	5.02
Fourth Quarter	2.92	2.39	5.21	3.70

## Dividend Policy

We have not paid cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. We intend to retain any earnings for use in our business. In addition, the covenants of our \$40.0 million credit facility may restrict us from paying dividends or making other distributions to our stockholders under certain circumstances.

## Sales of Unregistered Securities

During the fourth quarter of fiscal 2012, we did not issue or sell any unregistered securities.

## Issuer Repurchases of Equity Securities

During the fourth quarter of fiscal 2012, we did not repurchase any equity securities.

## Performance Graph

The following graph and accompanying data compares the cumulative total return on our Common Stock with the cumulative total return of the Total Return Index for The NASDAQ Composite Market (U.S. Companies) and the NASDAQ Telecommunications Index for the five-year period ended June 29, 2012. The stock price performance shown on the graph below is not necessarily indicative of future price performance. Note that this graph and accompanying data is "furnished," not "filed," with the Securities and Exchange Commission.

Table of Contents

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Aviat Networks, Inc., the NASDAQ Composite Index  
and the NASDAQ Telecommunications Index

	6/29/2007	6/27/2008	7/3/2009	7/2/2010	7/1/2011	6/29/2012
Aviat Networks, Inc.	100.00	53.28	34.20	19.47	22.02	15.57
NASDAQ Composite	100.00	84.54	73.03	82.88	110.33	115.30
NASDAQ Telecommunications	100.00	71.08	59.76	66.94	80.70	64.56

Assumes (i) \$100 invested on June 29, 2007 in Aviat Networks, Inc. Common Stock, the Total Return Index for

\* The NASDAQ Composite Market (U.S. companies) and the NASDAQ Telecommunications Index; and  
(ii) immediate reinvestment of all dividends.

## Item 6. Selected Financial Data

The following table summarizes our selected historical financial information for each of the last five fiscal years that has been derived from our audited consolidated financial statements. Data presented for fiscal years 2012, 2011 and 2010 are included elsewhere in this Annual Report on Form 10-K. This table should be read in conjunction with our other financial information, including “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes, included elsewhere in this Annual Report on Form 10-K.

	Fiscal Years Ended				
	June 29, 2012	July 1, 2011	July 2, 2010	July 3, 2009	June 27, 2008
	(In millions)				
Revenue from product sales and services	\$444.0	\$452.1	\$465.5	\$677.9	\$718.4
Cost of product sales and services	312.3	324.0	332.7	503.8	528.2
Loss from continuing operations	(15.5 )	(58.8 )	(108.4 )	(348.8 )	(11.9 )
Net loss	(24.1 )	(90.5 )	(130.2 )	(355.0 )	(11.9 )
Basic and diluted loss per common share:					
Loss from continuing operations	(0.26 )	(1.00 )	(1.82 )	(5.94 )	(0.20 )
Net loss	(0.41 )	(1.54 )	(2.19 )	(6.05 )	(0.20 )

Table of Contents

	As of June 29, 2012 (In millions)	July 1, 2011	July 2, 2010	July 3, 2009	June 27, 2008
Total assets	\$329.6	\$383.9	\$447.0	\$600.2	\$977.3
Long-term liabilities	16.7	15.1	17.2	17.9	28.1
Total net assets	157.5	177.7	263.2	387.9	748.2

The following table summarizes certain charges, expenses and gains included in our net losses for each of the fiscal years in the five-year period ended June 29, 2012:

	Fiscal Years Ended June 29, 2012 (In millions)	July 1, 2011	July 2, 2010	July 3, 2009	June 27, 2008
Goodwill impairment charges	\$5.6	\$—	\$—	\$279.0	\$—
Intangible impairment charges	—	—	57.7	32.6	—
Property, plant and equipment impairment charges	—	—	8.7	3.2	—
Rebranding and transitional costs	—	0.9	8.4	—	—
Charges for product transition, product discontinuances and inventory mark-downs	1.0	6.6	16.9	29.8	14.7
Amortization of purchased technology and intangible assets	2.3	3.4	12.3	12.7	14.6
Restructuring charges	2.3	15.4	7.1	8.2	9.3
Amortization of the fair value adjustments related to fixed assets and inventory	—	0.2	0.6	1.7	2.8
Acquired in-process research and development	—	—	—	2.4	—
Cost of integration activities undertaken in connection with the Stratex merger	—	—	—	—	11.1
Gains from sale of building and Telsima acquisition purchase price settlement	—	—	(2.2)	—	—
NetBoss bad debt expenses and other	0.8	—	—	—	—
Loss on sale of NetBoss assets	—	4.6	—	—	—
Transactional tax assessments	0.6	2.8	—	—	—
Liquidation of entities	—	0.8	—	—	—
Other charges or adjustments	—	(0.9)	—	—	—
Share-based compensation expense	5.2	4.8	3.1	2.9	7.8
	\$17.8	\$38.6	\$112.6	\$372.5	\$60.3

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Overview of Business; Operating Environment and Key Factors Impacting Fiscal 2012 and 2013 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 consolidated financial statements and the accompanying notes. In the discussion below, our fiscal year ended June 29, 2012 is referred to as "fiscal 2012" or "2012"; fiscal year ended July 1, 2011 as "fiscal 2011" or "2011" and fiscal

year ended July 2, 2010 as “fiscal 2010” or “2010.”

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, government agencies, transportation and utility companies, public safety agencies and broadcast system operators across the globe. Our products include point-to-point (PTP) 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, and multiplexers, necessary to build and deploy a wireless transmission network, and a full suite of turnkey support services.

Table of Contents

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.

Our strategic focus in the next fiscal year will be 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 have examined 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. Seasonality is a factor that impacts our business. Our fiscal third quarter revenue and orders have historically been lower than the revenue and orders in the immediately preceding second quarter because many of our customers utilize a significant portion of their capital budgets at the end of their fiscal year. 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 factors, including changes in the global economy and other factors. Please refer to the section entitled "Risk Factors" in Item 1A in this Annual Report on Form 10-K.

Operations Review

During fiscal 2012, we secured orders and expanded our footprint with our customers in the mobile operator market using our current technology and service capabilities. We believe that there is steady growth in this market and that it will continue growing over the long term as mobile operators build network capacity to address increasing demands for bandwidth, tempered by the global financial and economic environment. In order to significantly expand our mobile operator customer base and displace competitors we plan to bring our next generation of products to market in the next fiscal year. The signs of growth in non-mobile operator market segments exist today, mostly in North America, but increasingly in other parts of the world. Typical applications of our products are in utility and public safety networks where the emphasis is on quality, service, reliability and network security.

During September 2011, one of our contract manufacturers in Thailand was affected by flooding in that country. Our logistics and supply chain staff worked closely with that supplier and jointly were successful in mitigating and minimizing the delivery impact to our customers during the second and third quarters of fiscal 2012. We are now satisfied that this contract manufacturer has recovered from this event and that future deliveries to us will not be affected adversely as a result of the floods.

We completed the sale of our former WiMAX business to EION on September 2, 2011. The sale of the WiMAX business was part of our strategic plan to streamline our business and focus our time and resources on growing our core microwave business to better position us for long-term success. We worked with EION on the transition of the business which was completed during fiscal 2012.

We began accounting for the WiMAX business as a discontinued operation in the third quarter of fiscal 2011. The discussions of our revenue, gross margin, operating expenses and income taxes have excluded the WiMAX business results, which are discussed separately under "Loss from Discontinued Operations" below.

In the second quarter of fiscal 2012, we performed a goodwill impairment analysis due to a significant decline in our market capitalization, which was considered as a goodwill impairment indicator. Based on the results of the impairment analysis, we recorded a \$5.6 million goodwill impairment charge in the second quarter of fiscal 2012 and no longer have any goodwill on our balance sheet.

During fiscal 2012, we continued restructuring activities to reduce our operational costs and have substantially completed our initiatives under the Fiscal 2011 Plan as of June 29, 2012. We intend to wind down certain remaining restructuring activities under the Fiscal 2011 Plan in fiscal 2013.

In the fourth quarter of fiscal 2012, we re-evaluated our reportable segments primarily due to changes in our management, transition of our products to a common product platform across all geographies, streamlining of our business and substantial completion of our restructuring plan in fiscal 2012. The Chief Operating Decision Maker ("CODM"), which is our Chief Executive Officer, manages our business primarily by function globally and reviews



financial information on a consolidated basis, accompanied by disaggregated information about revenues by geographic region, for purposes of allocating resources and evaluating financial performance. The profitability of our former geographic segments is not a determining factor in allocating resources and the CODM does not evaluate profitability below the level of the consolidated company. As such we

27

---

Table of Contents

determined that we operate in one single reportable industry segment as of June 29, 2012. Prior years information has been recast to conform with the current reportable segment disclosure.

## Revenue

We manage our sales activities primarily on a geographic basis in North America and three international geographic regions: Africa and Middle East, Europe and Russia, and Latin America and Asia Pacific. Beginning with the first quarter of fiscal 2012, in order to better align our internal reporting with the activities in our international business organizations, we changed our internal operational review of revenue by region by separating the Middle East region from Europe and Russia and grouping it with Africa. Revenue by region for fiscal 2011 and 2010 has been reclassified to reflect this change. Revenue by region for fiscal 2012, 2011 and 2010 and the related changes are shown in the table below:

(In millions, except percentages)	Fiscal Year			\$ Change		% Change	
	2012	2011	2010	2012 /2011	2011 /2010	2012 /2011	2011 /2010
North America	\$164.9	\$160.4	\$174.8	\$4.5	\$(14.4)	2.8%	(8.2)%
International:							
Africa and Middle East	147.7	143.6	162.8	4.1	(19.2)	2.9%	(11.8)%
Europe and Russia	53.6	73.4	46.4	(19.8)	27.0	(27.0)%	58.2%
Latin America and Asia Pacific	77.8	74.7	81.5	3.1	(6.8)	4.1%	(8.3)%
Total International	279.1	291.7	290.7	(12.6)	1.0	(4.3)%	0.3%
Total Revenue	\$444.0	\$452.1	\$465.5	\$(8.1)	\$(13.4)	(1.8)%	(2.9)%

While revenue increased in North America in fiscal 2012 compared with fiscal 2011, we experienced a decrease in our international revenue. We saw improved sales with North American wireless network operators during the year compared to fiscal 2011. We attribute this to the ongoing buildout of LTE capable networks in the region. At the same time, business with utilities, state and local government private networks also remained strong in North America. We also saw growth in demand for our network services and support in the region. The decrease in the international revenue came from the absence of demand from customers in Russia who took substantial deliveries in fiscal 2011, along with the wind-down of equipment deliveries for a major project in the Middle East. Sales to wireless network operators remained strong, but varied by customer in the international markets. We saw better than expected sales in Asia Pacific and experienced substantially increased sales with our long-term customers in Africa, offsetting the reduced volume in the Middle East.

During fiscal 2012, the MTN Group in Africa accounted for 17% of our total revenue compared with 14% in fiscal 2011 and 17% in fiscal 2010. We have entered into separate and distinct contracts with MTN Group as well as separate arrangements with MTN Group subsidiaries. None of such contracts on an individual basis are material to our operations. The loss of all MTN Group business could adversely affect our results of operations, cash flows and financial position.

## North America

Our revenue in North America increased \$4.5 million, or 2.8%, in fiscal 2012 compared with fiscal 2011. We have seen substantial changes in product mix of our sales in this region from year to year. The bulk of our product revenue in North America now comes from our Eclipse product platform, whereas in the first half of fiscal 2011, our legacy products made up a significant portion of the region's sales. The revenue growth and product mix changes reflect continued success in transitioning our customer base to the new product platform as well as an increase in our services business from major customers in fiscal 2012.

Our revenue in North America decreased by \$14.4 million, or 8.2%, in fiscal 2011 compared with fiscal 2010. That decline was primarily attributable to reduced sales of our legacy product lines in the first half of fiscal 2011 when compared with the same period in fiscal 2010. Fiscal 2011 was a transition year for us as we completed the last deliveries of legacy products and our marketing and selling efforts were focused on our new product platform. Early in fiscal 2011 we experienced production issues which slowed the progress in transitioning sales to our new product

platform. But by mid-year, we had overcome those issues and the new platform sales increased significantly from the first quarter to the fourth quarter of fiscal 2011.

International

Our international revenue declined \$12.6 million, or 4.3%, in fiscal 2012 compared with fiscal 2011. Our business in Asia and Latin America showed improvement for fiscal 2012 from increased orders from network operators.

However, our sales in

28

---

Table of Contents

Europe and Russia were down from fiscal 2011 primarily due to the reduction of business with a major customer in Russia, that was offset in part by increased orders and sales to wireless network operators in other European countries. Africa continues to be our strongest international sector, where we continue to compete successfully for wireless infrastructure business of large network operators, particularly in West Africa.

Our international revenue increased by \$1.0 million, or 0.3%, in fiscal 2011 compared with fiscal 2010. Revenue from sales to wireless operators in Russia and France were substantially improved in fiscal year 2011 over the previous year. Those gains were offset in part by declines in revenue from customers in Africa and the Asia Pacific regions. We experienced strong price competition in all regions during the year and attribute the decrease in revenue in Africa and the Asia Pacific regions to reduced prices, as unit volumes were steady or up from fiscal 2010.

**Gross Margin**

(In millions, except percentages)	Fiscal Year			\$ Change		% Change	
	2012	2011	2010	2012 /2011	2011 /2010	2012 /2011	2011 /2010
Revenue	\$444.0	\$452.1	\$465.5	\$(8.1 )	\$(13.4 )	(1.8 )%	(2.9 )%
Cost of revenue	312.3	324.0	332.7	(11.7 )	(8.7 )	(3.6 )%	(2.6 )%
Gross margin	\$131.7	\$128.1	\$132.8	\$3.6	\$(4.7 )	2.8 %	(3.5 )%
% of revenue	29.7	% 28.3	% 28.5	%			

The general business trends of strong price competition for new business in all regions and major customer consolidations continue to put pressure on our gross margin.

Gross margin for fiscal 2012 increased \$3.6 million, or 2.8%, compared with fiscal 2011. Gross margin as a percentage of revenue increased 1.4% compared with fiscal 2011. While gross margin was in line with expectations for the year, the year-over-year improvement was primarily due to the absence in the current year period of a \$6.0 million one-time charge related to manufacturing overhead that we recorded in the first quarter of fiscal 2011 and the absence of large inventory write-downs which we incurred in fiscal 2011 as we transitioned out of the legacy products.

Prior to fiscal 2011, we capitalized most of the costs associated with our internal manufacturing operations as a component of the overall cost of product inventory. Beginning in the first quarter of fiscal 2011, we shifted the manufacturing of our products primarily to contract manufacturers and completed the transfer by the end of fiscal 2011. Accordingly, the costs associated with our internal operations organization are now expensed as incurred. Gross margin in fiscal 2011 was negatively affected by the immediate expensing of \$6.0 million of such previously capitalized costs in the first quarter of fiscal 2011.

Exclusive of the net impact from these charges, the gross margin and gross margin as a percentage of revenue in fiscal 2012 were lower than fiscal 2011 due to competitive pricing pressures and a small shift in the mix of our business toward services, which caused a small decline in the fiscal 2012 gross margin rate. In the long run, we anticipate an improvement in gross margin as a percentage of revenue as a result of the transition to our next generation products.

Gross margin for fiscal 2011 decreased \$4.7 million, or 3.5%, compared with fiscal 2010. Gross margin as a percentage of revenue also decreased 0.2% compared with fiscal 2010. The decrease was primarily due to the \$6.0 million one-time charge related to manufacturing overhead and the large inventory write-downs incurred in fiscal 2011 as mentioned above, partially offset by a \$6.5 million decrease in amortization of purchased technology due to lower intangible asset balances in fiscal 2011 resulting from a \$49.5 million impairment of such assets in the fourth quarter of fiscal 2010.

**Research and Development Expenses**

(In millions, except percentages)	Fiscal Year			\$ Change		% Change	
	2012	2011	2010	2012 /2011	2011 /2010	2012 /2011	2011 /2010
Research and development expenses	\$36.0	\$40.5	\$31.1	\$(4.5 )	\$9.4	(11.1 )%	30.2 %

% of revenue            8.1            % 9.0            % 6.7            %

Our research and development (“R&D”) expenses declined \$4.5 million, or 11.1%, in fiscal 2012 compared with fiscal 2011. As a percentage of revenue, R&D expenses also decreased to 8.1% in fiscal 2012 from 9.0% in fiscal 2011. The decrease in R&D expenses of \$4.5 million, consisting mostly of personnel expenses, was primarily due to restructuring of our research and development workforce in prior years. In addition, share-based compensation expense in fiscal 2011 was higher by \$1.0

Table of Contents

million due to vesting of performance shares upon the achievement of new product development milestones in fiscal 2011. We continue to invest in new product features, new functionality and lower cost platforms that we believe will enable our product lines to retain their technology leads in a cost effective manner.

Our R&D expenses increased \$9.4 million in fiscal 2011 compared with fiscal 2010. As a percentage of revenue, R&D expenses also increased to 9.0% in fiscal 2011 from 6.7% in fiscal 2010. The increase in R&D expenses was primarily attributable to investments in new product innovation by increasing R&D headcount in our core business, and an increase in share-based compensation related to the vesting of performance shares upon the achievement of new product development milestones in fiscal 2011.

## Selling and Administrative Expenses

(In millions, except percentages)	Fiscal Year			\$ Change		% Change	
	2012	2011	2010	2012 / 2011	2011 / 2010	2012 / 2011	2011 / 2010
Selling and administrative expenses	\$98.9	\$104.0	\$134.7	\$(5.1)	\$(30.7)	(4.9)%	(22.8)%
% of revenue	22.3	% 23.0	% 28.9				

Our selling and administrative expenses declined \$5.1 million, or 4.9%, in fiscal 2012 compared with fiscal 2011. The decrease was due primarily to a \$2.6 million reduction in sales and administrative compensation expenses and a \$0.4 million decrease in facility expenses as a result of the restructuring programs we implemented over the past two years, a \$2.0 million decrease in agent commission expenses driven by lower fee-based revenues, and a decrease of \$1.1 million in expenses for information technology projects, partially offset by an increase of \$1.3 million in share-based compensation. We will continue to seek ways to improve our operating efficiency in fiscal 2013.

Our selling and administrative expenses declined \$30.7 million, or 22.8%, in fiscal 2011 compared with fiscal 2010. The significant decrease in fiscal 2011 was due primarily to reductions in compensation expenses resulting from the restructuring plan implemented in prior years and the sale of NetBoss assets, the absence of sales commissions incurred for a large contract with a customer in fiscal 2010, and absence of expenses related to rebranding and transitional costs incurred in fiscal 2010 due to corporate name change and costs to phase-out transitional services agreement with Harris. The following table summarizes the significant decreases to our selling and administrative expenses comparing fiscal 2011 with fiscal 2010:

	Amount (In millions)
Decrease in personnel expenses from reductions in force	\$(10.9)
Decrease in commissions paid to sales agents	(4.1)
Decrease from lower expenses incurred on information technology projects	(3.9)
Decrease in amortization of software costs	(2.9)
Decrease due to lower expenses incurred as a result of sale of NetBoss assets	(1.9)
Decrease in executive severance for former CEO	(1.8)
Decrease due to absence of rebranding and transitional costs incurred in fiscal 2010	(1.3)
Other, net	(3.9)
	\$(30.7)

## Restructuring Charges

During the first quarter of fiscal 2011, we initiated a restructuring plan (the "Fiscal 2011 Plan") to reduce our operational costs. The Fiscal 2011 Plan was intended to bring our cost structure in line with the changing business environment of the worldwide microwave radio and telecommunication markets, primarily in North America, Europe and Asia. Activities under the Fiscal 2011 Plan included the downsizing or closures of our Morrisville, North Carolina, Canada and certain international field offices, and reductions in force to reduce our operating expenses.

Earlier in fiscal 2009, we commenced a restructuring plan (the “Fiscal 2009 Plan”) to reduce our workforce in the U.S., France, Canada and other locations throughout the world and outsource our San Antonio manufacturing operations to a third party in Austin, Texas. The Fiscal 2009 Plan has been completed as of the end of fiscal 2011. Our restructuring charges by plan for fiscal 2012, 2011 and 2010 are summarized in the table below:

30

---

Table of Contents

(In millions, except percentages)	Fiscal Year			\$ Change		% Change	
	2012	2011	2010	2012 /2011	2011 /2010	2012 /2011	2011 /2010
Restructuring	\$ 2.3	\$ 15.4	\$ 7.1	\$(13.1 )	\$ 8.3	(85.1 )%	116.9 %
By Plan:							
Fiscal 2011 Plan	\$ 2.3	\$ 12.7	\$—	\$(10.4 )	\$ 12.7	(81.9 )%	N/A
Fiscal 2009 Plan	\$—	\$ 2.7	\$ 7.1	\$(2.7 )	\$(4.4 )	(100.0 )%	(62.0 )%

Restructuring charges declined significantly by \$13.1 million in fiscal 2012 compared with fiscal 2011, and increased \$8.3 million in fiscal 2011 compared with fiscal 2010. The changes were due to the completion of Fiscal 2009 Plan in fiscal 2011 and the fact that major restructuring activities under the Fiscal 2011 Plan, such as the downsizing of our Morrisville, North Carolina office, occurred in fiscal 2011. Our restructuring expenses consisted primarily of severance and related benefit charges, and to a lesser extent, facilities costs related to obligations under non-cancelable leases for facilities that we ceased to use.

As of June 29, 2012, we have substantially completed our initiatives under the Fiscal 2011 Plan and expect to wind down certain remaining restructuring activities under this plan in fiscal 2013.

Other Income (Loss), Interest Income and Interest Expense

(In millions)	Fiscal Year		
	2012	2011	2010
Loss on sale of NetBoss assets	\$—	\$(4.6 )	\$—
Other income (loss), net	(0.6 )	(3.6 )	1.2
Interest income	0.6	0.3	0.3
Interest expense	(1.3 )	(2.2 )	(2.2 )

During fiscal 2011, we incurred \$4.6 million of loss on the sale of NetBoss assets. Other expenses for fiscal 2012 and 2011 consisted primarily of transactional tax assessments related to certain international entities. Other income for fiscal 2010 was related to a gain of \$1.2 from final settlement of the Telsima acquisition purchase price during fiscal 2010.

Interest expense was primarily related to preference dividends on our \$8.25 million redeemable preference shares and interest associated with borrowings, term loan and letters of credit under our credit facilities. The \$8.25 million preference shares were redeemed at their carrying value on January 30, 2012, funded by a two-year term loan of \$8.25 million under our credit facility at a fixed interest rate of 5% per annum.

Income Taxes

(In millions, except percentages)	Fiscal Year			\$ Change	
	2012	2011	2010	2012 /2011	2011 /2010
Loss from continuing operations before income taxes	\$(14.0 )	\$(44.7 )	\$(112.2 )	\$ 30.7	\$ 67.5
Provision for (benefit from) income taxes	\$ 1.5	\$ 14.1	\$(3.8 )	\$(12.6 )	\$ 17.9
% of loss from continuing operations before income taxes	(10.7 )%	(31.5 )%	3.4 %		

The income tax expense from continuing operations for fiscal year 2012 was \$1.5 million. The variation between our income tax expense from continuing operations and income tax benefit at the statutory rate of 35% on our pre-tax loss of \$14.0 million was primarily attributable to losses in tax jurisdictions in which we cannot recognize a tax benefit. The tax expense for fiscal year 2012 of \$1.5 million was primarily attributable to profitable foreign entities for which we have accrued income taxes.

The income tax expense from continuing operations for fiscal year 2011 was \$14.1 million. The variation between our income tax expense from continuing operations of \$14.1 million and income tax benefit at the statutory rate of 35% on our pre-tax loss of \$44.7 million was primarily due to an \$11.3 million increase in valuation allowance for Singapore deferred tax assets as of the beginning of fiscal 2011 and a \$1.4 million foreign branch withholding tax accrual. The



expense was partially offset by a valuation allowance release of \$1.6 million on Mexico deferred tax assets as of the beginning of fiscal year 2011.

The income tax benefit from continuing operations for fiscal 2010 was \$3.8 million. The variation between our income

Table of Contents

tax benefit from continuing operations and income tax benefit at the statutory rate of 35% on our pre-tax loss of \$112.2 million million was primarily due to a \$4.4 million one-time benefit recognized for U.S. federal income tax loss carryback under the Worker, Homeownership and Business Assistance Act of 2009. This benefit was partially offset by a full valuation allowance on all domestic deferred tax assets created in fiscal 2010. The effective tax rate for fiscal 2010 primarily reflected the benefits of earnings and losses of foreign subsidiaries taxed at lower rates and a dividend from a foreign subsidiary.

## Loss from Discontinued Operations

(In millions)	Fiscal Year			\$ Change	
	2012	2011	2010	2012 /2011	2011 /2010
Loss from discontinued operations, net of tax	\$(8.6 )	\$(31.7 )	\$(21.8 )	\$23.1	\$(9.9 )

Our discontinued operations consist of the WiMAX business, which was sold to EION on September 2, 2011. The loss from discontinued operations decreased \$23.1 million in fiscal 2012 compared with fiscal 2011. The decrease resulted primarily from the absence of large charges for provisions for excess and obsolete inventories and noncancellable purchase commitments which we incurred in fiscal 2011 when we decided to exit the WiMAX business, partially offset by higher WiMAX revenue in fiscal 2011. In addition, we recorded a \$1.9 million loss on disposition in fiscal 2012 and a \$9.5 million impairment charge on WiMAX assets held for sale in fiscal 2011, which were included in our loss on discontinued operations for the respective years.

The increase of loss in fiscal 2011 as compared with fiscal 2010 was primarily due to a \$13.1 million lower gross margin resulting mainly from provisions for excess and obsolete inventories and non-cancelable purchase commitments, partially offset by \$7.6 million decreases in operating expenses resulting from reduction of employee headcount related to WiMAX product development and support. The loss in fiscal 2011 also included a \$9.5 million loss on WiMAX held for sale assets and the loss in fiscal 2010 included \$5.5 million impairment charges on developed technology and intangible assets.

## Liquidity, Capital Resources and Financial Strategies

## Sources of Cash

As of June 29, 2012, our total cash and cash equivalents were \$96.0 million. Approximately \$25.3 million, or 26.4% of our total cash and cash equivalents, was held by entities domiciled in the United States. The remaining balance of \$70.7 million or 73.6% was held by entities outside the United States, primarily in Singapore and Nigeria. A portion of the non-U.S. cash and cash equivalents is utilized for working capital and other operating purposes. We are not aware of any local regulatory requirements in these countries that significantly restrict the ability of our operations to repatriate the excess cash generated by our foreign operations. However, there are practical limitations on repatriation of cash to the U.S. from these countries because of the resulting withholding and other taxes.

As of June 29, 2012, our principal sources of liquidity consisted of the \$96.0 million in cash and cash equivalents, \$20.1 million of available credit under our current \$40.0 million credit facility with Silicon Valley Bank ("SVB"), and cash collections from customers. We regularly require letters of credit from some customers who request extended payment terms up to one year or more. These letters of credit are generally 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 fiscal 2012, our total cash and cash equivalents decreased by \$2.2 million primarily due to \$5.9 million of cash used on capital expenditures, \$1.5 million of cash used related to the disposition of the WiMAX business and \$1.4 million repayment on our long-term loan, partially offset by cash provided by operating activities.

Cash provided by operating activities was \$8.4 million in fiscal 2012 primarily due to our net loss, adjusted for non-cash items, and a decrease in receivables of \$38.4 million, partially offset by a year-to-date decrease in accounts payable and accrued expenses of \$24.5 million and an increase in inventory of \$7.6 million. Our accounts receivable decreased significantly during fiscal 2012 primarily due to strong cash collections from customers during the period. The decrease in accounts payable was primarily due to timing of payments to our contract manufacturers and

suppliers. We also paid \$5.1 million in cash during fiscal 2012 for restructuring liabilities. The increase in our inventory was due to an increase in finished goods to meet customer demands for shipments in the first quarter of fiscal 2013. During fiscal year 2013, we expect to spend approximately \$10.0 million for capital expenditures. We currently believe that our existing cash and cash equivalents, the available line of credit under the SVB facility and future cash collections from customers will be sufficient to provide for our anticipated requirements for working capital and capital expenditures for the next 12 months and the foreseeable future. There can be no assurance, however, that our business will generate cash flow, or that anticipated operational improvements will be achieved. If we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations, we may be

Table of Contents

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.

**Available Credit Facility, Borrowings and Repayment of Debt**

As of June 29, 2012, we had \$20.1 million of credit available under our \$40.0 million revolving credit facility with SVB. The total amount of revolving credit available was \$40.0 million less \$12.9 million in outstanding long-term borrowings and \$7.0 million in outstanding standby letters of credit issued under the SVB facility.

In an amendment to the facility effective November 2, 2011, the commitment of \$40.0 million under the facility was extended to expire on February 28, 2014 and provides for (1) demand borrowings at the prime rate published in the Wall Street Journal, (2) fixed term Eurodollar loans for up to six months at LIBOR plus a spread of between 2.00% to 2.75% based on the company's current leverage ratio, (3) a two-year term loan in the amount of \$8.25 million at a fixed rate of 5% per annum expiring on January 31, 2014, and (4) the issuance of standby or commercial letters of credit. As of June 29, 2012, we had \$6.0 million demand borrowings under the credit facility which we do not expect to repay within the next fiscal year. The term loan drawn on January 30, 2012 is repaid in 24 equal monthly installments of principal plus accrued interest commencing February 29, 2012. The SVB facility contains a minimum liquidity ratio covenant and a minimum profitability covenant and is secured by certain of the company's assets including accounts receivable, inventory, and equipment. The facility also imposes certain restrictions on our ability to pay dividends or make distributions to our stockholders under certain circumstances.

Based on financial covenants included as part of the amended SVB credit facility, we must maintain, as measured at the last day of each fiscal quarter beginning September 30, 2011, (1) no less than a minimum liquidity ratio of 1.50 to 1 (defined as the ratio of total domestic unrestricted cash and cash equivalents plus short-term and long-term marketable securities plus the lesser of 25% of eligible accounts receivable or \$12.5 million to total obligations outstanding with the bank) and (2) minimum consolidated EBITDA measured for each fiscal quarter. As of June 29, 2012, we were in compliance with these financial covenants.

**Redemption of Redeemable Preference Shares**

On June 30, 2011, we entered into an agreement with Harris Corporation for the early redemption of the preference shares issued by our Singapore subsidiary and held by Harris and another stockholder. The shares were redeemed on January 30, 2012, the fifth anniversary of their issuance, at their total face value of \$8.25 million, with the proceeds of a two-year long-term loan under the terms of an amendment to the SVB credit facility, as discussed above.

**Restructuring Payments**

We have a liability for restructuring activities totaling \$2.2 million as of June 29, 2012, \$1.5 million of which is classified as current liability and expected to be paid out in cash over the next year. Additionally, we expect to incur approximately \$1.4 million of additional charges from our restructuring activities in fiscal 2013. We expect to fund these future payments with available cash and cash flow provided by operations.

**Contractual Obligations**

As of June 29, 2012, cash payments due under our contractual obligations are estimated as follows:

(In millions)	Obligations Due by Fiscal Year					
	Total	2013	2014-2015	2016-2017	After 2017	Other
Demand borrowings	\$6.0	\$—	\$6.0	\$—	\$—	\$—
Long-term debt	6.9	4.1	2.8	—	—	—
Interest on long-term debt <sup>(1)(4)</sup>	0.3	0.2	0.1	—	—	—
Purchase obligations <sup>(2)(4)</sup>	44.9	43.7	1.2	—	—	—
Operating lease commitments <sup>(4)</sup>	27.8	5.6	8.1	6.1	8.0	—
Less: sublease proceeds <sup>(4)</sup>	(1.5	) (0.8	) (0.7	) —	—	—
Liabilities for uncertain tax positions <sup>(3)</sup>	4.2	—	—	—	—	4.2

Total contractual cash obligations	\$88.6	\$52.8	\$17.5	\$6.1	\$8.0	\$4.2
------------------------------------	--------	--------	--------	-------	-------	-------

Table of Contents

(1) The interest rate is 5% per annum on the two-year term loan expiring on January 31, 2014.

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

(2) or terminate the purchasing agreement. It is not our intent, nor is it reasonably likely, that we would cancel a purchase order that we have executed. 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, we have no basis to estimate any future liability under these agreements.

Liabilities for uncertain tax positions of \$4.2 million were included in long-term liabilities in the consolidated (3) balance sheet. At this time, we are unable to make a reasonably reliable estimate of the timing of payments related to this amount due to uncertainties in the timing of tax audit outcomes.

(4) These items are not recorded on our balance sheet.

#### Commercial Commitments

We have entered into commercial commitments in the normal course of business including surety bonds, standby letters of credit and other arrangements with financial institutions and insurers primarily relating to the guarantee of future performance on certain tenders and contracts to provide products and services to customers. As of June 29, 2012, we had commercial commitments on outstanding surety bonds and standby letters of credit as follows:

(In millions)	Expiration of Commitments by Fiscal Year				
	Total	2013	2014	2015	After 2015
Standby letters of credit used for:					
Bids	\$0.3	\$0.3	\$—	\$—	\$—
Down payments	0.3	0.2	—	—	0.1
Performance	7.0	6.2	0.7	0.1	—
	7.6	6.7	0.7	0.1	0.1
Surety bonds used for:					
Bids	0.2	0.2	—	—	—
Tax and payment guarantees	5.5	0.9	4.6	—	—
Performance	75.4	58.2	—	17.2	—
	81.1	59.3	4.6	17.2	—
Total commercial commitments	\$88.7	\$66.0	\$5.3	\$17.3	\$0.1

As we have not historically had to pay out on any of our performance guarantees, the outstanding commercial commitments have not been recorded on our consolidated balance sheet.

#### Off-Balance Sheet Arrangements

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

• any obligation under certain guarantee contracts;

• a retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;

• any obligation, including a contingent obligation, under certain derivative instruments; and

• any obligation, including a contingent obligation, under a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

Currently we are not participating in transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, and we do not have any material retained or contingent interest in assets as defined above. As of June 29, 2012, we did not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity. In addition, we are not currently a party to any

related party transactions that materially affect our results of operations, cash flows or financial condition. Due to the downsizing of certain of our operations pursuant to divestitures, restructuring plans or otherwise, some

Table of Contents

properties leased by us have been sublet to third parties. In the event any of these third parties vacate any of these premises, we would be legally obligated under master lease arrangements. We believe that the financial risk of default by such sublessors is not likely to be individually or in the aggregate material to our financial position, results of operations or cash flows.

**Financial Risk Management**

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 nor 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. These derivatives are designated as cash flow hedges and are carried at fair value. The effective portion of the gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently reclassified into the income or expense line item to which the hedged transaction relates. 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 June 29, 2012, we had foreign currency forward contracts outstanding with a total net notional amount of \$17.7 million consisting of 13 different currencies. The following is a summary of the net notional amount of our outstanding contracts grouped by the underlying foreign currency as of June 29, 2012:

Currency	Contract Net Amount (Local Currency)	Net Notional Contract Amount (USD)
	(In millions)	
Australian dollar	3.6	\$3.6
Canadian dollar	(1.1 )	(1.0 )
Euro	5.1	6.5
Philippine peso	(121.5 )	(2.9 )
Polish zloty	11.0	3.2
Thailand baht	34.4	1.1
Republic of South Africa rand	58.7	7.1
Other currencies	N/A	0.1
Total of all currency forward contracts		\$17.7

Net foreign exchange (losses) gains recorded in our consolidated statements of operations during fiscal 2012, 2011 and 2010 totaled \$(1.5) million, \$(2.6) million and \$0.3 million, respectively. A 10% adverse change in currency exchange rates for our foreign currency derivatives held as of June 29, 2012 would have an impact of approximately \$2.9 million on the fair value of such instruments. This quantification of exposure to the market risk associated with foreign exchange financial instruments does not take into account the offsetting impact of changes in the fair value of our foreign denominated assets, liabilities and firm commitments.

Approximately 21% of our international business was transacted in non-U.S. dollar currency environments in fiscal 2012 compared with 18% in fiscal 2011. 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 is included as a component of stockholders' equity. As of June 29, 2012, the cumulative



translation adjustment decreased our stockholders' equity by \$4.0 million compared with a decrease of \$2.6 million as of July 1, 2011.

**Interest Rate Risk**

Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents and long-term debt borrowings under our SVB credit facilities.

## Table of Contents

### Exposure on Cash Equivalents

We had \$96.0 million in total cash and cash equivalents as of June 29, 2012. Cash equivalents totaled \$61.8 million as of June 29, 2012 and were comprised of money market funds and certificates of deposit. Cash equivalents have been recorded at fair value on our balance sheet.

We do not use derivative financial instruments in our short-term investment portfolio. We invest in high-credit quality issues and, by policy, limit the amount of credit exposure to any one issuer and country. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. The portfolio is also diversified by maturity to ensure that funds are readily available as needed to meet our liquidity needs. This policy reduces the potential need to sell securities in order to meet liquidity needs and therefore the potential effect of changing market rates on the value of securities sold.

The primary objective of our short-term investment activities is to preserve principal while maximizing yields, without significantly increasing risk. 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 June 29, 2012 was two days, and these investments had an average yield of 0.16% 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 fiscal 2012, we had \$6.0 million of demand borrowings outstanding under our \$40.0 million revolving credit facility that incurred interest at the prime rate. We also recorded interest on our \$8.3 million long-term borrowing drawn on January 30, 2012 at the fixed rate of 5% per annum. During fiscal 2012, our weighted average interest rate was 3.85% and we recorded total interest expense of \$0.4 million on these borrowings.

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.

### Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us.

These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected.

The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

#### Revenue recognition

Inventory valuation and provision for excess and obsolete inventory losses

Impairment of goodwill, identifiable intangible assets and long-lived assets

Income taxes and tax valuation allowances

In some cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. Our senior management has reviewed these critical accounting policies and related disclosures with the Audit Committee of the Board of Directors.

The following is not intended to be a comprehensive list of all of our accounting policies or estimates. Our significant accounting policies are more fully described in "Note 1. The Company and Summary of Significant Accounting Policies" in the notes to consolidated financial statements. In preparing our financial statements and accounting for the underlying transactions and balances, we apply those accounting policies. We consider the estimates discussed below as critical to an understanding of our financial statements because their application places the most significant demands on our judgment, with financial reporting results relying on estimates about the effect of matters that are

inherently uncertain.

Besides estimates that meet the “critical” accounting estimate criteria, we make many other accounting estimates in

36

---

Table of Contents

preparing our financial statements and related disclosures. All estimates, whether or not deemed critical, affect reported amounts of assets, liabilities, revenue and expenses as well as disclosures of contingent assets and liabilities. Estimates are based on experience and other information available prior to the issuance of the financial statements. Materially different results can occur as circumstances change and additional information becomes known, including for estimates that we do not deem “critical.”

Revenue Recognition

We generate substantially all of our revenue from the sales or licensing of our microwave radio and wireless access systems, network management software, and professional services including installation and commissioning and training. Principal customers for our products and services include domestic and international wireless/mobile service providers, original equipment manufacturers, distributors, system integrators, as well as private network users such as public safety agencies, government institutions, and utility, pipeline, railroad and other industrial enterprises that operate broadband wireless networks. Our customers generally purchase a combination of our products and services as part of a multiple element arrangement. Our assessment of which revenue recognition guidance is appropriate to account for each element in an arrangement can involve significant judgment. This assessment has a significant impact on the amount and timing of revenue recognition.

Revenue is recognized when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. Contracts and customer purchase orders are generally used to determine the existence of an arrangement.
  - Delivery has occurred. Shipping documents and customer acceptance, when applicable, are used to verify delivery.
  - The fee is fixed or determinable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.
  - Collectability is reasonably assured. We use judgment to assess collectability based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer’s payment history.
- We often enter into multiple contractual agreements with the same customer. Such agreements are reviewed to determine whether they should be evaluated as one arrangement. If an arrangement, other than a long-term contract, requires the delivery or performance of multiple deliverables or elements, we determine whether the individual elements represent “separate units of accounting”. The determination as to whether multiple contractual agreements should be evaluated as one arrangement and the identification of units of accounting in an arrangement requires significant judgment and impacts the amount of product and service revenue recognized in a given period. In accordance with ASC 605-25, based on the terms and conditions of the product arrangements, we believe that our products and services can be accounted for separately as our products and services have value to our customers on a stand-alone basis. Accordingly, amounts related to services not yet performed at the time of product shipment are deferred based on their relative selling price and recognized as revenue as such services are performed. The relative selling price of any undelivered products is also deferred at the time of shipment and recognized as revenue when these products are delivered. There is generally no customer right of return in our sales agreements. The sequence for typical multiple element arrangements is as follows: we deliver our products, perform installation services and then provide post-contract support services.
- Vendor-specific objective evidence (“VSOE”) of fair value is based on the price charged when the element is sold separately. For multiple element arrangements, if VSOE cannot be established, we establish, where available, the selling price based on third-party evidence (“TPE”). TPE requires judgment and is determined based on evidence of competitor pricing for similar deliverables when sold separately. When we cannot determine VSOE or TPE which is typically the case, we use the estimated selling price (“ESP”) in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would typically transact a stand-alone sale of the product or service. In determining ESP, we apply significant judgment as we weigh a variety of factors including our pricing policies, internal costs and gross margin objectives, method of distribution, information gathered from experience in customer negotiations, market research and information, recent technological trends, competitive landscape and geographies. The determination of ESP is approved by our management taking into consideration our pricing strategy. We regularly review VSOE, TPE and ESP and maintain internal controls over the establishment and updates of these

estimates. We do not expect a material impact in future periods from changes in VSOE, TPE or ESP. Revenues related to long-term contracts for customized network solutions are recognized using the percentage-of-completion method. In using the percentage-of-completion method, we generally apply the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. Contracts are combined when specific aggregation criteria are met including when the contracts are in substance an arrangement to perform a

## Table of Contents

single project with a customer; the contracts are negotiated as a package in the same economic environment with an overall profit objective; the contracts require interrelated activities with common costs that cannot be separately identified with, or reasonably allocated to the elements, phases or units of output and the contracts are performed concurrently or in a continuous sequence under the same project management at the same location or at different locations in the same general vicinity. Recognition of profit on long-term contracts requires estimates of the total contract value, the total cost at completion and the measurement of progress towards completion. Significant judgment is required when estimating total contract costs and progress to completion on the arrangements as well as whether a loss is expected to be incurred on the contract. Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts or programs in progress are charged to earnings when identified.

### Inventory Valuation and Provisions for Excess and Obsolete Losses

Our inventories have been valued at the lower of cost or market. We balance the need to maintain prudent inventory levels to ensure competitive delivery performance with the risk of excess or obsolete inventory due to changing technology and customer requirements, and new product introductions. Beginning in the first quarter of fiscal 2011, the manufacturing of our products was handled primarily by contract manufacturers. Our contract manufacturers procure components and manufacture our products based on our forecast of product demand. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand, the stage of the product life cycle, anticipated end of product life and production requirements. During fiscal 2012, 2011 and 2010, we recorded charges to reduce the carrying value of our inventories to the lower of cost or market totaling \$3.4 million, \$14.5 million and \$29.6 million, respectively. Such charges equaled 0.8%, 3.2%, and 6.4% of our revenue in fiscal 2012, 2011 and 2010, respectively. The review of excess and obsolete inventory primarily relates to the microwave business. Several factors may influence the sale and use of our inventories, including decisions to exit a product line, technological change, new product development and competing product offerings. These factors could result in a change in the amount of obsolete inventory quantities on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case the provision required for excess and obsolete inventory may be overstated or understated. In the future, if we determine that our inventory is overvalued, we would be required to recognize such costs in cost of product sales and services in our Statement of Operations at the time of such determination. In the case of goods which have been written down below cost at the close of a fiscal quarter, such reduced amount is considered the new lower cost basis for subsequent accounting purposes, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. We did not make any material changes in the valuation methodology during the past three fiscal years.

Our customer service inventories are stated at the lower of cost or market. We carry service parts because we generally provide product warranty for 12 to 24 months and earn revenue by providing enhanced and extended warranty and repair service during and beyond this warranty period. Customer service inventories consist of both component parts, which are primarily used to repair defective units, and finished units, which are provided for customer use permanently or on a temporary basis while the defective unit is being repaired. We record adjustments to reduce the carrying value of customer service inventories to their net realizable value. Factors influencing these adjustments include product life cycles, end of service life plans and volume of enhanced or extended warranty service contracts. Estimates of net realizable value involve significant estimates and judgments about the future, and revisions would be required if these factors differ from our estimates.

### Impairment of Goodwill, Identifiable Intangible Assets and Long-Lived Assets

We account for business combinations using the purchase method of accounting which means we record the assets acquired and liabilities assumed at their respective fair values at the date of acquisition, with any excess purchase price recorded as goodwill.

Valuation of intangible assets and in-process research and development requires significant estimates and assumptions including, but not limited to, determining the timing and expected costs to complete development projects, estimating future cash flows from product sales, developing appropriate discount rates, estimating probability rates for the successful completion of development projects, continuation of customer relationships and renewal of customer contracts. The amounts and useful lives assigned to identifiable intangible assets and other long-lived assets impact the amount and timing of future amortization and depreciation expense. Accordingly a subsequent reduction in the estimated carrying value or useful life of an asset would result in an accelerated recognition of amortization or depreciation expense.

We review the carrying value of our intangible assets and goodwill for impairment on an annual basis and whenever events or circumstances indicate that these assets may have become impaired. Significant negative industry or economic trends, including a lack of recovery in the market price of our common stock, disruptions to our business, unexpected significant changes or planned changes in the use of the intangible assets, and mergers and acquisitions could result in the need to reassess

## Table of Contents

the fair value of our assets and liabilities which could lead to an impairment charge for any of our intangible assets or goodwill. The value of our intangible assets and goodwill could also be impacted by future adverse changes such as any future declines in our operating results, a significant slowdown in the worldwide economy and the microwave industry or any failure to meet the performance projections included in our forecasts of future operating results.

Goodwill is tested for impairment at the reporting unit level annually during the fourth quarter of our fiscal year, or when an impairment indicator exists, using a two-step process. First, we determine if the carrying amount of any of our reporting units exceeds its fair value (determined using an analysis of a combination of projected discounted cash flows and market multiples based on revenue and earnings before interest, taxes, depreciation and amortization), which would indicate a potential impairment associated with that reporting unit. If we determine that a potential impairment exists, we then compare the implied fair value associated with the respective reporting unit, to its carrying amount to determine if there is an impairment loss.

Evaluations of impairment involve management estimates of asset useful lives, future cash flows and discount rates. Significant management judgment is required in the forecasts of future operating results that are used in the evaluations. It is possible, however, that the plans and estimates used may prove to be inaccurate. If our actual results, or the plans and estimates used in future impairment analysis, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges in a future period. For example, we recorded impairment charges of \$5.6 million for goodwill in fiscal 2012 and \$63.2 million for identifiable intangible assets in fiscal 2010.

We evaluate other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets. If impairment exists, the impairment loss is measured and recorded based on discounted estimated future cash flows. In estimating future cash flows, assets are grouped at the lowest levels for which there are identifiable cash flows that are largely independent of cash flows from other asset groups.

Our estimate of future cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. The actual cash flows realized from these assets may vary significantly from our estimates due to increased competition, changes in technology, fluctuations in demand, consolidation of our customers, reductions in average selling prices and other factors. Assumptions underlying future cash flow estimates are therefore subject to significant risks and uncertainties.

### Income Taxes and Tax Valuation Allowances

We record the estimated future tax effects of temporary differences between the tax basis of assets and liabilities of amounts reported in our Consolidated Balance Sheet, as well as operating loss and tax credit carryforwards.

Significant changes in these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We record deferred taxes by applying enacted statutory tax rates to the respective jurisdictions and follow specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded on the balance sheet and provide necessary valuation allowances as required. Future realization of deferred tax assets ultimately depends on meeting certain criteria in ASC 740. One of the major criteria is the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the tax law. We regularly review our deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. Our judgments regarding future profitability may change due to many factors, including future market conditions and our ability to successfully execute our business plans and/or tax planning strategies. Should there be a change in our ability to recover our deferred tax assets, our tax provision would increase or decrease in the period in which the assessment is changed.

The accounting estimates related to the liability for uncertain tax position require us to make judgments regarding the sustainability of each uncertain tax position based on its technical merits. It is inherently difficult and subjective to estimate our reserves for the uncertain tax positions. Although we believe our estimates are reasonable, no assurance



can be given that the final tax outcome of these matters will be same as these estimates. These estimates are updated quarterly based on factors such as change in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues.

#### Impact of Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued an accounting standards update on the presentation of comprehensive income, which eliminates the current option to report other comprehensive income and its components in the statement of stockholders' equity. The new guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively and is

Table of Contents

effective for us beginning in our first quarter of fiscal 2013. The adoption of this new guidance will not impact our consolidated financial position or results of operations, as the guidance relates only to financial statement presentation.

Item 7A. 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. For a discussion of such policies and procedures and the related risks, see “Financial Risk Management” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is incorporated by reference into this Item 7A.

Table of Contents

Item 8. Financial Statements and Supplementary Data  
Index to Financial Statements

	Page
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>42</u>
<u>Consolidated Statements of Operations for Fiscal Years Ended June 29, 2012, July 1, 2011 and July 2, 2010</u>	<u>44</u>
<u>Consolidated Balance Sheets as of June 29, 2012 and July 1, 2011</u>	<u>45</u>
<u>Consolidated Statements of Cash Flows for Fiscal Years Ended June 29, 2012, July 1, 2011 and July 2, 2010</u>	<u>46</u>
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Loss for Fiscal Years Ended June 29, 2012, July 1, 2011 and July 2, 2010</u>	<u>47</u>
<u>Notes to Consolidated Financial Statements</u>	<u>48</u>
<u>Financial Statement Schedule: Schedule II — Valuation and Qualifying Accounts</u>	<u>86</u>

41

---

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Aviat Networks, Inc.

We have audited the accompanying consolidated balance sheets of Aviat Networks, Inc. as of June 29, 2012 and July 1, 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for each of the three years in the period ended June 29, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aviat Networks, Inc. at June 29, 2012 and July 1, 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 29, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aviat Networks, Inc.'s internal control over financial reporting as of June 29, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 4, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Redwood City, California  
September 4, 2012

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Aviat Networks, Inc.

We have audited Aviat Networks, Inc.'s internal control over financial reporting as of June 29, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Aviat Networks, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aviat Networks, Inc. maintained, in all material respects, effective internal control over financial reporting as of June 29, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aviat Networks, Inc. as of June 29, 2012 and July 1, 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for each of the three years in the period ended June 29, 2012 of Aviat Networks, Inc. and our report dated September 4, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Redwood City, California  
September 4, 2012

Table of ContentsAVIAT NETWORKS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)	Fiscal Years Ended		
	June 29, 2012	July 1, 2011	July 2, 2010
Revenues:			
Revenue from product sales	\$335.5	\$357.5	\$356.6
Revenue from services	108.5	94.6	108.9
Total revenues	444.0	452.1	465.5
Cost of revenues:			
Cost of product sales	232.8	252.3	236.1
Cost of services	78.8	71.0	72.5
Charges for product transition	—	—	16.9
Amortization of purchased technology	0.7	0.7	7.2
Total cost of revenues	312.3	324.0	332.7
Gross margin	131.7	128.1	132.8
Operating expenses:			
Research and development expenses	36.0	40.5	31.1
Selling and administrative expenses	98.9	104.0	134.7
Amortization of identifiable intangible assets	1.6	2.8	5.0
Property, plant and equipment impairment charges	—	—	8.7
Intangible assets and trade name impairment charges	—	—	57.7
Goodwill impairment charges	5.6	—	—
Restructuring charges	2.3	15.4	7.1
Total operating expenses	144.4	162.7	244.3
Operating loss	(12.7 )	(34.6 )	(111.5 )
Loss on sale of NetBoss assets	—	(4.6 )	—
Other income (loss), net	(0.6 )	(3.6 )	1.2
Interest income	0.6	0.3	0.3
Interest expense	(1.3 )	(2.2 )	(2.2 )
Loss from continuing operations before income taxes	(14.0 )	(44.7 )	(112.2 )
Provision for (benefit from) income taxes	1.5	14.1	(3.8 )
Loss from continuing operations	(15.5 )	(58.8 )	(108.4 )
Loss from discontinued operations, net of tax	(8.6 )	(31.7 )	(21.8 )
Net loss	\$(24.1 )	\$(90.5 )	\$(130.2 )
Per share data:			
Basic and diluted loss per common share from continuing operations	\$(0.26 )	\$(1.00 )	\$(1.82 )
Basic and diluted loss per common share from discontinued operations	\$(0.15 )	\$(0.54 )	\$(0.37 )
Basic and diluted net loss per common share	\$(0.41 )	\$(1.54 )	\$(2.19 )
Basic and diluted weighted average shares outstanding	59.0	58.6	59.4

See accompanying Notes to Consolidated Financial Statements

Table of Contents

## AVIAT NETWORKS, INC.

## CONSOLIDATED BALANCE SHEETS

(In millions, except share and par value amounts)	June 29, 2012	July 1, 2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$96.0	\$98.2
Receivables, net	90.7	133.0
Unbilled costs	25.9	24.8
Inventories	56.8	50.6
Customer service inventories	18.5	21.2
Deferred income taxes	1.0	0.8
Other current assets	15.7	21.7
Total current assets	304.6	350.3
Long-Term Assets		
Property, plant and equipment, net	21.7	21.6
Goodwill	—	5.6
Identifiable intangible assets, net	1.8	4.1
Deferred income taxes	0.4	0.7
Other assets	1.1	1.6
Total long-term assets	25.0	33.6
Total Assets	\$329.6	\$383.9
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Current portion of long-term debt	4.1	—
Accounts payable	51.6	70.3
Accrued compensation and benefits	11.9	11.1
Redeemable preference shares	—	8.3
Other accrued expenses	43.7	50.3
Advance payments and unearned income	41.3	45.8
Deferred income taxes	1.3	0.9
Restructuring liabilities	1.5	4.4
Total current liabilities	155.4	191.1
Long-Term Liabilities		
Long-term debt	8.8	6.0
Other long-term liabilities	2.8	3.5
Reserve for uncertain tax positions	4.2	4.2
Deferred income taxes	0.9	1.4
Total Liabilities	172.1	206.2
Commitments and Contingencies (Note 14)		
Stockholders' Equity		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 300,000,000 shares authorized; issued and outstanding 61,274,740 shares as of June 29, 2012 and 60,611,561 shares as of July 1, 2011	0.6	0.6
Additional paid-in-capital	796.8	791.6
Accumulated deficit	(635.9)	(611.8)
Accumulated other comprehensive loss	(4.0)	(2.7)
Total Stockholders' Equity	157.5	177.7
Total Liabilities and Stockholders' Equity	\$329.6	\$383.9

See accompanying Notes to Consolidated Financial Statements

45

---



Table of Contents

## AVIAT NETWORKS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Fiscal Years Ended		
	June 29, 2012	July 1, 2011	July 2, 2010
Operating Activities			
Net loss	\$ (24.1 )	\$ (90.5 )	\$ (130.2 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Amortization of identifiable intangible assets	2.3	3.4	13.8
Depreciation and amortization of property, plant and equipment and capitalized software	4.9	8.6	20.0
Goodwill impairment charges	5.6	—	—
Intangible asset impairment charges	—	—	63.2
Property, plant and equipment impairment charges	—	—	7.9
Bad debt expenses	3.9	2.9	2.6
Share-based compensation expense	5.2	4.8	3.2
Deferred income tax expense (benefit)	(0.5 )	11.0	4.2
Charges for product transition and inventory write-downs	3.4	20.2	13.5
Impairment charges/loss on disposition related to WiMAX business	1.9	9.5	—
Loss on sale of NetBoss assets	—	4.6	—
Other	—	—	(1.2 )
Changes in operating assets and liabilities:			
Receivables	38.4	(28.7 )	35.9
Unbilled costs	(1.1 )	5.5	2.4
Inventories	(7.6 )	(6.4 )	12.2
Customer service inventories	0.7	(10.9 )	(3.1 )
Accounts payable	(18.6 )	11.5	(11.0 )
Accrued expenses	(5.9 )	3.8	(9.1 )
Advance payments and unearned income	(4.6 )	8.5	(0.1 )
Income taxes payable or receivable	0.1	(1.9 )	—
Other assets and liabilities	4.4	2.6	(0.9 )
Net cash provided by (used in) operating activities	8.4	(41.5 )	23.3
Investing Activities			
Cash received from sale of NetBoss assets	—	3.8	—
Cash disbursed related to sale of WiMAX business, net	(1.5 )	—	—
Cash payments for business acquisition, net	—	—	(4.2 )
Proceeds from sale of property, plant and equipment	—	—	5.4
Sales and maturities of short-term investments	—	—	0.3
Additions of property, plant and equipment	(5.9 )	(7.2 )	(12.9 )
Additions of capitalized software	—	(0.8 )	(2.9 )
Net cash used in investing activities	(7.4 )	(4.2 )	(14.3 )
Financing Activities			
Proceeds from short-term debt arrangement	—	—	6.3
Payments on short-term debt arrangement	—	(5.0 )	(11.3 )
Proceeds from long-term debt	8.3	6.0	—
Payments on long-term debt	(1.4 )	—	—
Proceeds from share-based compensation awards	0.1	0.2	0.1
Redemption of preference shares	(8.3 )	—	—

Edgar Filing: AVIAT NETWORKS, INC. - Form 10-K

Payments on capital lease obligations	—	—	(0.4	)		
Net cash provided by (used in) financing activities	(1.3	)	1.2	(5.3	)	
Effect of exchange rate changes on cash and cash equivalents	(1.9	)	1.0	1.2		
Net increase (decrease) in cash and cash equivalents	(2.2	)	(43.5	)	4.9	
Cash and cash equivalents, beginning of year	98.2		141.7		136.8	
Cash and cash equivalents, end of year	\$96.0		\$98.2		\$141.7	
Supplemental disclosure of cash flow information:						
Cash paid (received) during the year for:						
Interest	\$1.3		\$2.2		\$2.2	
Income taxes	\$1.3		\$2.7		\$(3.6	)
See accompanying Notes to Consolidated Financial Statements						

46

---

Table of Contents
 AVIAT NETWORKS, INC.  
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS'  
 EQUITY AND COMPREHENSIVE LOSS

	Common Stock Shares	Common Stock Class A Shares	Common Stock	Common Stock Class A	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(In millions)							
Balance as of July 3, 2009	—	58.9	\$—	\$0.6	\$ 783.2	\$ (391.1 )	\$ (4.8 )	\$ 387.9
Net loss	—	—	—	—	—	(130.2 )	—	(130.2 )
Foreign currency translation loss	—	—	—	—	—	—	1.5	1.5
Net unrealized loss on hedging activities	—	—	—	—	—	—	0.7	0.7
Comprehensive loss								(128.0 )
Reclassification of Class A shares to Common Stock	58.9	(58.9 )	0.6	(0.6 )	—	—	—	—
Issuance of stock related to employee share-based awards	0.5	—	—	—	0.1	—	—	0.1
Share-based compensation	—	—	—	—	3.2	—	—	3.2
Balance as of July 2, 2010	59.4	—	0.6	—	786.5	(521.3 )	(2.6 )	263.2
Net loss	—	—	—	—	—	(90.5 )	—	(90.5 )
Transfer from CTA to other loss resulting from the liquidation of foreign entities	—	—	—	—	—	—	0.6	0.6
Foreign currency translation gain	—	—	—	—	—	—	(0.3 )	(0.3 )
Net unrealized gain on hedging activities	—	—	—	—	—	—	(0.4 )	(0.4 )
Comprehensive loss								(90.6 )
Issuance of stock related to employee share-based awards	1.2	—	—	—	0.2	—	—	0.2
Share-based compensation	—	—	—	—	4.8	—	—	4.8
Other	—	—	—	—	0.1	—	—	0.1
Balance as of July 1, 2011	60.6	—	0.6	—	791.6	(611.8 )	(2.7 )	177.7
Net loss	—	—	—	—	—	(24.1 )	—	(24.1 )
Foreign currency translation loss	—	—	—	—	—	—	(1.4 )	(1.4 )
Net unrealized loss on hedging activities	—	—	—	—	—	—	0.1	0.1
Comprehensive loss								(25.4 )
Issuance of stock related to employee share-based awards	0.7	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	5.2	—	—	5.2
Balance as of June 29, 2012	61.3	—	\$0.6	\$—	\$ 796.8	\$ (635.9 )	\$ (4.0 )	\$ 157.5

See accompanying Notes to Consolidated Financial Statements

47

---

Table of Contents

AVIAT NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and Summary of Significant Accounting Policies

The Company

We design, manufacture and sell 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.

On January 28, 2010, we changed our corporate name from Harris Stratex Networks, Inc. to Aviat Networks, Inc. (“Aviat Networks”, “we,” “us,” and “our”) to more effectively reflect our business and communicate our brand identity to customers. Additionally, the change of our corporate name was to comply with the termination of the Harris Corporation (“Harris”) trademark licensing agreement resulting from the spin-off by Harris of its interest in our stock to its stockholders in May 2009.

Basis of Presentation

The consolidated financial statements include the accounts of Aviat Networks and its wholly-owned and majority owned subsidiaries. Significant intercompany transactions and accounts have been eliminated.

Our fiscal year ends on the Friday nearest calendar June 30. This was June 29 for fiscal 2012, July 1 for fiscal 2011 and July 2 for fiscal 2010. All fiscal years presented each included 52 weeks. In these notes to consolidated financial statements, we refer to our fiscal years as “fiscal 2012”, “fiscal 2011” and “fiscal 2010.”

Reclassifications

Certain amounts in the fiscal 2011 and 2010 financial statements have been reclassified to conform with the fiscal 2012 presentation. At June 29, 2012, based on the management's intent not to repay the demand borrowings within the next year, the \$6.0 million demand borrowings were classified as long-term debt. Accordingly, we reclassified the fiscal 2011 balance of \$6.0 million from short-term debt to long-term debt to conform with the fiscal 2012 presentation.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States (“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 doubtful accounts, inventory valuation, fair value of goodwill and intangible assets, valuation allowances for deferred tax assets, uncertainties in income taxes, restructuring obligations, product warranty obligations, share-based awards, contingencies and useful lives of intangible assets, property, plant and equipment.

Cash, Cash Equivalents and Short-Term Investments

We consider all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are carried at amortized cost, which approximates fair value due to the short-term nature of these investments. Amortization or accretion of premium or discount is included in interest income on the consolidated statements of operations. We hold cash and cash equivalents at several major financial institutions, which often significantly exceed Federal Deposit Insurance Corporation insured limits. However, a substantial portion of the cash equivalents is invested in prime money market funds which are backed by the securities in the fund. Historically, we have not experienced any losses due to such concentration of credit risk.

We invest our excess cash in high-quality marketable debt securities to ensure that cash is readily available for use in our current operations. Investments with original maturities greater than three months but less than one year are

accounted for as short-term and are classified as such at the time of purchase. Marketable securities are classified as “available-for-sale” and are classified as short-term because we view our entire portfolio as available for use in our current operations.

As of June 29, 2012 and July 1, 2011, all of our high-quality marketable debt securities were classified as cash

Table of Contents

equivalents. Realized gains and losses on short-term investments are recorded in selling and administrative expenses and were not significant during fiscal 2012, 2011 and 2010.

Accounts Receivable, Major Customers and Other Significant Concentrations

We typically invoice our customers for the sales order (or contract) value of the related products delivered at various milestones, including order receipt, shipment, installation and acceptance and for services when rendered. Our trade receivables are derived from sales to customers located in North America, Africa, Europe, the Middle East, Russia, Asia-Pacific and Latin America.

We record accounts receivable at net realizable value, which includes an allowance for estimated uncollectible accounts to reflect any loss anticipated on the collection of accounts receivable balances. We calculate the allowance based on our history of write-offs, level of past due accounts and economic status of the customers. The fair value of our accounts receivable approximates their net realizable value.

We regularly require letters of credit from some customers who request extended payment terms of up to one year or more, which we generally discount with various financial institutions. Under these arrangements, collection risk is fully transferred to the financial institutions. We record the cost of discounting these letters of credit as interest expense. Total customer letters of credit being discounted and related interest expense are as follows:

(In millions)	Fiscal Year		
	2012	2011	2010
Customer letters of credit being discounted	\$90.7	\$80.6	\$91.1
Interest expense	\$0.3	\$0.4	\$0.7

During fiscal 2012, 2011 and 2010, we had one international customer in Africa (Mobile Telephone Networks Group or MTN Group) that accounted for 17%, 14% and 17%, respectively, of our total revenue. As of June 29, 2012 and July 1, 2011, MTN Group accounted for approximately 7% and 8%, respectively, of our accounts receivable. No other customers accounted for more than 10% of our revenue or accounts receivable for the years presented.

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash equivalents, marketable debt securities, trade accounts receivable and financial instruments used in foreign currency hedging activities. We invest our excess cash primarily in prime money market funds and certificates of deposit. We are exposed to credit risks related to such instruments in the event of default or decrease in credit-worthiness of the issuers of the investments. We perform ongoing credit evaluations of our customers and generally do not require collateral on accounts receivable, as the majority of our customers are large, well-established companies. However, in certain circumstances, we may require letters of credit, additional guarantees or advance payments. We maintain reserves for potential credit losses, but historically have not experienced any significant losses related to any particular geographic area since our business is not concentrated within any particular geographic region. Our customers are primarily in the telecommunications industry, so our accounts receivable are concentrated within one industry and exposed to concentrations of credit risk within that industry. Accounts receivable are written off when attempts to collect outstanding amounts have been exhausted or there are other indicators that the amounts are no longer collectible.

We rely on sole providers for certain components of our products and rely on a limited number of contract manufacturers and suppliers to provide manufacturing services for our products. The inability of a contract manufacturer or supplier to fulfill our supply requirements could materially impact future operating results. We have entered into agreements relating to our foreign currency contracts with large, multinational financial institutions. The amounts subject to credit risk arising from the possible inability of any such parties to meet the terms of their contracts are generally limited to the amounts, if any, by which such party's obligations exceed our obligations to that party.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using standard cost, which approximates actual cost on a weighted-average basis. We regularly review inventory quantities on hand and record adjustments to reduce the cost of inventory for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements. Inventory adjustments are measured as the difference between the cost of the inventory and estimated market value based upon assumptions about future demand and charged to the provision for

inventory, which is a component of cost of sales. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established cost basis.



## Table of Contents

### Customer Service Inventories

Our customer service inventories are stated at the lower of cost or market. We carry service parts because we generally provide product warranty for 12 to 24 months and earn revenue by providing enhanced and extended warranty and repair service during and beyond this warranty period. Customer service inventories consist of both component parts, which are primarily used to repair defective units, and finished units, which are provided for customer use permanently or on a temporary basis while the defective unit is being repaired. We record adjustments to reduce the carrying value of customer service inventories to their net realizable value. Factors influencing these adjustments include product life cycles, end of service life plans and volume of enhanced or extended warranty service contracts. Estimates of net realizable value involve significant estimates and judgments about the future, and revisions would be required if these factors differ from our estimates.

### Income Taxes and Related Uncertainties

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are determined based on the estimated future tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by tax rates at which temporary differences are expected to reverse. Deferred tax expense (benefit) is the result of changes in deferred tax assets and liabilities. A valuation allowance is established to offset any deferred tax assets if, based upon the available information, it is more likely than not that some or all of the deferred tax assets will not be realized.

We are required to compute our income taxes in each federal, state, and international jurisdiction in which we operate. This process requires that we estimate the current tax exposure as well as assess temporary differences between the accounting and tax treatment of assets and liabilities, including items such as accruals and allowances not currently deductible for tax purposes. The income tax effects of the differences we identify are classified as current or long-term deferred tax assets and liabilities in our Consolidated Balance Sheets. Our judgments, assumptions, and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax laws or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our consolidated balance sheets and consolidated statements of operations. We must also assess the likelihood that deferred tax assets will be realized from future taxable income and, based on this assessment, establish a valuation allowance, if required. Our determination of our valuation allowance is based upon a number of assumptions, judgments, and estimates, including forecasted earnings, future taxable income, and the relative proportions of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. To the extent we establish a valuation allowance or change the valuation allowance in a period, we reflect the change with a corresponding increase or decrease to our tax provision in our consolidated statements of operations or to goodwill or intangible assets to the extent that the valuation allowance related to tax attributes of the acquired entities.

We use a two-step process to determine the amount of tax benefit to be recognized. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

### Property, Plant and Equipment

Property, plant and equipment are stated on the basis of cost less accumulated depreciation and amortization. We capitalize costs of software, consulting services, hardware and other related costs incurred to purchase or develop internal-use software. We expense costs incurred during preliminary project assessment, research and development, re-engineering, training and application maintenance. Leasehold improvements made either at the inception of the lease or during the lease term are amortized over the remaining current lease term, or estimated life, if shorter.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized on the straight-line method over the shorter of the remaining lease term or the estimated useful life of the improvements. The useful lives of the assets are generally as follows:

50

---

Table of Contents

Buildings and leasehold improvements	2 to 45 years
Software	3 to 5 years
Machinery and equipment	2 to 5 years

Expenditures for maintenance and repairs are charged to expense as incurred. Cost and accumulated depreciation of assets sold or retired are removed from the respective property accounts, and any gain or loss is reflected in the consolidated statements of operations.

#### Impairment of Goodwill, Identifiable Intangible Assets and Long-Lived Assets

We account for business combinations using the purchase method of accounting which means we record the assets acquired and liabilities assumed at their respective fair values at the date of acquisition, with any excess purchase price recorded as goodwill.

Valuation of intangible assets and in-process research and development requires significant estimates and assumptions including, but not limited to, determining the timing and expected costs to complete development projects, estimating future cash flows from product sales, developing appropriate discount rates, estimating probability rates for the successful completion of development projects, continuation of customer relationships and renewal of customer contracts. Intangible assets determined to have finite lives are amortized over their estimated useful lives.

Goodwill and intangible assets deemed to have indefinite lives are not amortized but instead are tested for impairment at the reporting unit level at least annually in the fourth quarter of our fiscal year. In addition, we review the carrying value of our intangible assets and goodwill for impairment whenever events or circumstances indicate that their carrying amount may not be recoverable. Significant negative industry or economic trends, including a lack of recovery in the market price of our common stock, disruptions to our business, unexpected significant changes or planned changes in the use of the intangible assets, and mergers and acquisitions could result in the need to reassess the fair value of our assets and liabilities which could lead to an impairment charge for any of our intangible assets or goodwill. The value of our indefinite lived intangible assets and goodwill could also be impacted by future adverse changes such as any future declines in our operating results, a significant slowdown in the worldwide economy and the microwave industry or any failure to meet the performance projections included in our forecasts of future operating results.

Goodwill is tested for impairment using a two-step process. First, we determine if the carrying amount of any of our reporting units exceeds its fair value (determined using an analysis of a combination of projected discounted cash flows and market multiples based on revenue and earnings before interest, taxes, depreciation and amortization), which would indicate a potential impairment associated with that reporting unit. If we determine that a potential impairment exists, we then compare the implied fair value associated with the respective reporting unit, to its carrying amount to determine if there is an impairment loss.

Evaluations of impairment involve management estimates of asset useful lives and future cash flows. Significant management judgment is required in the forecasts of future operating results that are used in the evaluations. It is possible, however, that the plans and estimates used may prove to be inaccurate. If our actual results, or the plans and estimates used in future impairment analysis, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges in a future period which could result in charges that are material to our results of operations.

We evaluate other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets. If impairment exists, the impairment loss is measured and recorded based on discounted estimated future cash flows. In estimating future cash flows, assets are grouped at the lowest levels for which there are identifiable cash flows that are largely independent of cash flows from other asset groups.

Our estimate of future cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. The actual cash flows realized from these assets may vary significantly from our estimates due to increased competition, changes in technology, fluctuations in demand, consolidation of our customers, reductions in average selling prices and other factors. Assumptions underlying future

cash flow estimates are therefore subject to significant risks and uncertainties.

Capitalized Software

Costs for the conceptual formulation and design of new software products are expensed as incurred until technological

51

---

## Table of Contents

feasibility has been established (when we have a working model). Once technological feasibility has been established, we capitalize costs to produce the finished software products. Capitalization ceases when the product is available for general release to customers. Costs associated with product enhancements that extend the original product's life or significantly improve the original product's marketability are also capitalized once technological feasibility has been established.

Amortization is calculated on a product-by-product basis as the greater of the amount computed using (i) the ratio that current gross revenue for a product bear to the total of current and anticipated future gross revenue for that product; or (ii) the straight-line method over the remaining economic life of the product. At each balance sheet date, the unamortized capitalized cost of each computer software product is compared to the net realizable value of that product. If an amount of unamortized capitalized costs of a computer software product is found to exceed the net realizable value of that asset, such amount will be written off. The net realizable value is the estimated future gross revenue from that product reduced by the estimated future costs of completing and deploying that product, including the costs of performing maintenance and customer support required to satisfy our responsibility set forth at the time of sale.

Our capitalized software related primarily to our NetBoss assets that were disposed in fiscal 2011. Total amortization expense on capitalized software was \$0.5 million and \$2.8 million in fiscal 2011 and 2010, respectively.

### Other Accrued Expenses and Other Assets

No accrued liabilities or expenses within other accrued expenses on our consolidated balance sheets exceeded 5% of our total current liabilities as of June 29, 2012 or July 1, 2011. Other accrued expenses on our consolidated balance sheets primarily includes accruals for sales commissions, warranties and severance. No current assets other than those already disclosed on the consolidated balance sheets exceeded 5% of our total current assets as of June 29, 2012 or July 1, 2011. No assets within the caption "Other assets" on the consolidated balance sheets exceeded 5% of total assets as of June 29, 2012 or July 1, 2011.

### Warranties

On product sales we provide for future warranty costs upon product delivery. The specific terms and conditions of those warranties vary depending upon the product sold and country in which we do business. In the case of products sold by us, our warranties generally start from the delivery date and continue for one to two years, depending on the terms.

Our products are manufactured to customer specifications and their acceptance is based on meeting those specifications. Factors that affect our warranty liability include the number of installed units, historical experience and management's judgment regarding anticipated rates of warranty claims and cost per claim. We assess the adequacy of our recorded warranty liabilities every quarter and make adjustments to the liability as necessary.

Network management software products generally carry a 30-day to 90-day warranty from the date of acceptance. Our liability under these warranties is to provide a corrected copy of any portion of the software found not to be in substantial compliance with the agreed-upon specifications.

### Operating Leases

We lease facilities and equipment under various operating leases. These lease agreements generally include rent escalation clauses, and many include renewal periods at our option. We recognize expense for scheduled rent increases on a straight-line basis over the lease term beginning with the date we take possession of the leased space. Leasehold improvements made either at the inception of the lease or during the lease term are amortized over the current lease term, or estimated life, if shorter.

### Foreign Currency Translation

The functional currency of our subsidiaries located in the United Kingdom, Singapore, Mexico, Algeria and New Zealand is the U.S. dollar. Determination of the functional currency is dependent upon the economic environment in which an entity operates as well as the customers and suppliers the entity conducts business with. Changes in facts and circumstances may occur which could lead to a change in the functional currency of that entity. Accordingly, all of the monetary assets and liabilities of these subsidiaries are re-measured into U.S. dollars at the current exchange rate as of the applicable balance sheet date, and all non-monetary assets and liabilities are re-measured at historical rates.

Income and expenses are re-measured at the average exchange rate prevailing during the period. Gains and losses

resulting from the re-measurement of these subsidiaries' financial statements are included in the consolidated statements of operations.

Our other international subsidiaries use their respective local currency as their functional currency. Assets and liabilities of these subsidiaries are translated at the local current exchange rates in effect at the balance sheet date, and income and expense accounts are translated at the average exchange rates during the period. The resulting translation adjustments are

52

---

Table of Contents

included in accumulated other comprehensive income.

Gains and losses resulting from foreign exchange transactions and translation of monetary assets and liabilities in non-functional currencies are included in cost of product sales and services in the accompanying consolidated statements of operations. Net foreign exchange (losses) gains recorded in our consolidated statements of operations during fiscal 2012, 2011 and 2010 totaled \$(1.5) million, \$(2.6) million and \$0.3 million, respectively.

Retirement Benefits

As of June 29, 2012, we provided retirement benefits to substantially all employees primarily through our defined contribution retirement plans. These plans have matching and savings elements. Contributions by us to these retirement plans are based on profits and employees' savings with no other funding requirements. We may make additional contributions to the plan at our discretion.

Contributions to retirement plans are expensed as incurred. Retirement plan expense amounted to \$2.8 million, \$3.3 million and \$2.8 million in fiscal 2012, 2011 and 2010, respectively.

Revenue Recognition

We generate substantially all of our revenue from the sales or licensing of our microwave radio and wireless access systems, network management software, and professional services including installation and commissioning and training. Principal customers for our products and services include domestic and international wireless/mobile service providers, original equipment manufacturers, distributors, system integrators, as well as private network users such as public safety agencies, government institutions, and utility, pipeline, railroad and other industrial enterprises that operate broadband wireless networks. Our customers generally purchase a combination of our products and services as part of a multiple element arrangement. Our assessment of which revenue recognition guidance is appropriate to account for each element in an arrangement can involve significant judgment.

Revenue from product sales is generated predominately from the sales of products manufactured by third party manufacturers to whom we have outsourced our manufacturing processes. In general, printed circuit assemblies, mechanical housings, and packaged modules are manufactured by contract manufacturing partners, with periodic business reviews of material levels and obsolescence. Product assembly, product testing, complete system integration and system testing may either be performed within our own facilities or at the locations of our third party manufacturers.

Revenue from services includes certain installation, extended warranty, customer support, consulting, training and education. It also can include certain revenue generated from the resale of equipment purchased on behalf of customers for installation service contracts we perform for customers. Such equipment may include towers, antennas, and other related materials.

Under our revenue recognition policy, revenue is recognized when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. Contracts and customer purchase orders are generally used to determine the existence of an arrangement.

• Delivery has occurred. Shipping documents and customer acceptance, when applicable, are used to verify delivery.

• The fee is fixed or determinable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.

• Collectibility is reasonably assured. We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

We often enter into multiple contractual agreements with the same customer. Such agreements are reviewed to determine whether they should be evaluated as one arrangement. If an arrangement, other than a long-term contract, requires the delivery or performance of multiple deliverables or elements, we determine whether the individual elements represent "separate units of accounting". Based on the terms and conditions of our typical product sales arrangement, we believe that our products and services can be accounted for as separate units because our products and services have value to our customers on a stand-alone basis.

When a sale involves multiple deliverables, the entire fee from the arrangement is allocated to each unit of accounting based on the relative selling price of each deliverable. When applying the relative selling price method, we determine the selling price for each deliverable using vendor-specific objective evidence ("VSOE") of selling price, if it exists, or third-party evidence ("TPE") of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, which is

typically the case, we use our best estimate of selling price (“ESP”) for that deliverable. Revenue allocated to each element is then recognized

53

---



Table of Contents

when the other revenue recognition criteria are met for each element. Accordingly, services not yet performed at the time of product shipment are deferred based on their relative selling price and recognized as revenue as such services are performed. The relative selling price of any undelivered products is also deferred at the time of shipment and recognized as revenue when these products are delivered. There is generally no customer right of return in our sales agreements. The sequence for typical multiple element arrangements: we deliver our products, perform installation services and then provide post-contract support services.

VSOE of fair value is based on the price charged when the element is sold separately. For multiple element arrangements, if VSOE cannot be established, we establish, where available, the selling price based on TPE. TPE is determined based on evidence of competitor pricing for similar deliverables when sold separately. When we cannot determine VSOE or TPE which is typically the case, we use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would typically transact a stand-alone sale of the product or service. ESP is determined by considering a number of factors including our pricing policies, internal costs and gross margin objectives, method of distribution, information gathered from experience in customer negotiations, market research and information, recent technological trends, competitive landscape and geographies. The determination of ESP is approved by our management taking into consideration our pricing strategy. We regularly review VSOE, TPE and ESP and maintain internal controls over the establishment and updating of these estimates.

For our proprietary and OEM products, we determine ESP using a discount off list methodology. Under this approach, reasonably available data points, including deals bid and won in the past rolling four quarters and competitor pricing data, for each part number are gathered. Then similar parts are grouped together and the average net price and the discount off the list price are calculated for each group of products. Since we have determined that pricing varies significantly by geography, the data is further stratified by geography. Within geographies, the data is stratified based on type of customer, distribution channel and estimated deal size or customer volume as larger opportunities with multiple deliverables bundled are more likely to receive preferential pricing. Based on all the available information (pricing practices and trends, competition, market, potential pricing limitations set by the competitors for the similar or identical product, functionality and expected technological life of the product, etc.), the final discount off list percentage is determined. Using the discount off list price percentage, the best estimated selling price for each product is determined.

For services ESP, we also stratify data based on geography, type of customer and estimated deal size. For training and extended support services, we determine ESP using a discount off list methodology as discussed above. For technical and installation services, we determine ESP using an estimated margin methodology. Under this methodology, ESP's are determined based on estimated margins anticipated. We consider historical margins as well as current pricing trends and market conditions when determining the estimated margin.

Some of our products have both software and non-software components that function together to deliver the product's essential functionality. We have determined that the software element in our core microwave products is incidental in accordance with the software revenue recognition rules. Accordingly, these products were not within the scope of the software revenue recognition rules, ASC 985-605, Software Revenue Recognition.

In addition to the software in our core microwave product which is not within the scope of the software revenue recognition rules, some of our sales arrangements have multiple deliverables containing software and related software support components. Such sale arrangements are subject to the accounting guidance in ASC 985-605, Software-Revenue Recognition. Under the software revenue recognition guidance, we use the residual method to recognize revenue when a multiple element arrangement includes one or more elements to be delivered at a future date and VSOE of fair value of all undelivered elements exists. If VSOE can be established for the undelivered elements of an arrangement, we recognize revenue following the residual method. If VSOE cannot be established for the undelivered elements of an arrangement, we defer revenue until the earlier of delivery, or fair value of the undelivered element exists, unless the undelivered element is a service, in which the entire arrangement fee is recognized ratably over the period during which the services are expected to be performed.

Revenues related to long-term contracts for customized network solutions are recognized using the percentage-of-completion method. In using the percentage-of-completion method, we generally apply the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs

at completion. Contracts are combined when specific aggregation criteria are met including when the contracts are in substance an arrangement to perform a single project with a customer; the contracts are negotiated as a package in the same economic environment with an overall profit objective; the contracts require interrelated activities with common costs that cannot be separately identified with, or reasonably allocated to the elements, phases or units of output and the contracts are performed concurrently or in a continuous sequence under the same project management at the same location or at different locations in the same general vicinity. Recognition of profit on long-term contracts requires estimates of the total contract value, the total cost at completion and the measurement of progress towards completion. Significant judgment is required when estimating total contract costs and progress to completion on the arrangements as well as whether a loss is expected to be incurred on the contract. Amounts

## Table of Contents

representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts or programs in progress are charged to earnings when identified.

Royalty income is recognized on the basis of terms specified in the contractual agreements.

### Cost of Product Sales and Services

Cost of sales consists primarily of materials, labor and overhead costs incurred internally and paid to contract manufacturers to produce our products, personnel and other implementation costs incurred to install our products and train customer personnel, and customer service and third party original equipment manufacturer costs to provide continuing support to our customers. Also included in cost of sales is the amortization of purchased technology intangible assets.

Shipping and handling costs are included as a component of costs of product sales in our consolidated statements of operations because we include in revenue the related costs that we bill our customers.

### Presentation of Transactional Taxes Collected from Customers and Remitted to Government Authorities

We present transactional taxes such as sales and use tax collected from customers and remitted to governmental authorities on a net basis.

### Share-Based Compensation

We have issued stock options, restricted stock and performance shares under our 2007 Stock Equity Plan and have assumed stock options from the Stratex acquisition. We estimate the grant date fair value of our share-based awards and amortize this fair value to compensation expense over the requisite service period or vesting term.

To estimate the fair value of our stock option awards, we use the Black-Scholes option-pricing model. The determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. Due to the inherent limitations of option-valuation models, including consideration of future events that are unpredictable and the estimation process utilized in determining the valuation of the share-based awards, the ultimate value realized by our employees may vary significantly from the amounts expensed in our financial statements. For restricted stock and performance share awards, we measure the grant date fair value based upon the market price of our common stock on the date of the grant.

For stock options and restricted stock, we recognize compensation cost on a straight-line basis over the awards' vesting periods for those awards which contain only a service vesting feature. For awards with a performance condition vesting feature, when achievement of the performance condition is deemed probable we recognize compensation cost on a straight-line basis over the awards' expected vesting periods.

We estimate forfeitures at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures differ significantly from initial estimates. Share-based compensation expense is recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest.

Cash flows, if any, resulting from the gross benefit of tax deductions related to share-based compensation in excess of the grant date fair value of the related share-based awards are presented as part of cash flows from financing activities. This amount is shown as a reduction to cash flows from operating activities and an increase to cash flow from financing activities.

### Net Income (Loss) per Share of Common Stock

We compute net income (loss) per share of common stock using the two-class method. Basic net income (loss) per share is computed using the weighted average number of common shares and participating securities outstanding. Our unvested restricted shares (including restricted stock awards and performance share awards) contain rights to receive non-forfeitable dividends and therefore are considered to be participating securities and would be included in the calculations of net income per basic and diluted common share. However, we incurred a net loss in all periods presented. In accordance with Accounting Standard Codification ("ASC") subtopic 260-10, undistributed losses are not allocated to unvested restricted shares due to the fact that the unvested restricted shares are not contractually

obligated to share in the losses of the company.

As we incurred net loss for all periods in fiscal 2012, 2011 and 2010, potential dilutive securities from stock options,

55

---

## Table of Contents

restricted shares and stock units have been excluded from the diluted net loss per share computations as their effect was anti-dilutive. Because the exercise prices of the outstanding stock options were greater than the average market price of our shares during the applicable year, the number of option shares excluded from the diluted loss per share calculations determined by applying the treasury stock method were not significant during all periods in fiscal 2012, 2011 and 2010.

### Restructuring and Related Expenses

We record a liability for costs associated with an exit or disposal activity when the liability is incurred. We also record (i) liabilities associated with exit and disposal activities measured at fair value; (ii) expenses for one-time termination benefits at the date we notify the employee, unless the employee must provide future service, in which case the benefits are expensed ratably over the future service period; and (iii) liabilities related to an operating lease/contract at fair value and measured when the contract does not have any future economic benefit to the entity (i.e., the entity ceases to utilize the rights conveyed by the contract). We expense all other costs related to an exit or disposal activity as incurred. We record severance benefits provided as part of an ongoing benefit arrangement, and accrue a liability for expected severance costs. Restructuring liabilities and the liability for expected severance costs are shown as "Restructuring liabilities" in current and long-term liabilities on our consolidated balance sheets and the related costs are reflected as operating expenses in the consolidated statements of operations.

### Research and Development Costs

Our sponsored research and development costs, which include costs in connection with new product development, improvement of existing products, process improvement, and product use technologies, are charged to operations in the period in which they are incurred.

### Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board issued an accounting standards update on the presentation of comprehensive income, which eliminates the current option to report other comprehensive income and its components in the statement of stockholders' equity. The new guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively and is effective for us beginning in our first quarter of fiscal 2013. The adoption of this new guidance will not impact our consolidated financial position or results of operations, as the guidance relates only to financial statement presentation.

## Note 2. Acquisitions and Divestitures

### Acquisition of Telsima

In February 2009, we acquired Telsima Corporation ("Telsima") for \$13.1 million in cash. Telsima was a privately-held leading developer and provider of WiMAX Forum Certified<sup>(TM)</sup> products for use in next generation broadband wireless networks. We completed the Telsima Acquisition to acquire WiMAX<sup>(TM)</sup> technology and products for use in next-generation broadband wireless networks and to enhance our ability to expand into new and emerging markets. The Telsima acquisition was accounted for as a purchase business combination and we recorded a total of \$6.2 million of goodwill. During the fourth quarter of fiscal 2010, subsequent to one year from the date of acquisition, we recorded a \$1.2 million gain in other income on our consolidated statement of operations from the final settlement of the purchase price.

### WiMAX Discontinued Operations

In March 2011, our board of directors approved a plan for the sale of our WiMAX business. On September 2, 2011, we sold to EION Networks, Inc. ("EION") our WiMAX business and related assets consisting of certain technology, inventory and equipment. We assigned customer contracts for WiMAX products and maintenance and agreed to license related patents to EION. We also agreed to indemnification for customary seller representations and warranties, and the provision of transitional services. As consideration for the sale of assets, EION agreed to pay us \$0.4 million in cash and up to \$2.8 million in additional cash payments contingent upon specific factors related to future WiMAX business performance. Currently we are not able to estimate the amount of consideration that we will receive beyond the \$0.4 million nor the probability of any such payment. Accordingly, any future consideration will

be recorded as a contingent gain in the period that it is received. EION is also entitled to receive cash payments up to \$2.0 million upon collections of certain WiMAX accounts receivable, of which \$1.4 million has been paid by us to EION as of June 29, 2012