

**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 July 1, 2016

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)

5200 Great America Parkway

Santa Clara, California

(Address of principal executive offices)

20-5961564

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

95054

(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.01 per share	NASDAQ Stock Market LLC
Preferred Shares Purchase Rights	(NASDAQ Global Select 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.

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 Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of January 1, 2016 (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 \$31.0 million based upon the closing price for shares of the registrant's common stock as reported by the NASDAQ Global Select Market on that date. For purposes of this calculation, the registrant has assumed that its directors, executive officers and holders of 5% or more of the outstanding common stock are affiliates.

The number of shares outstanding of the registrant's common stock as of August 18, 2016 was 5,261,041 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended July 1, 2016, are incorporated by reference into Part III of this Annual Report on Form 10-K.

AVIAT NETWORKS, INC.
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For the Fiscal Year Ended July 1, 2016
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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, including with respect to growing our business and sustaining profitability; our restructuring efforts; our research and development efforts and new product releases and services; trends in revenue; drivers of our business and the markets in which we operate; future economic conditions; performance or outlook and changes in our industry and the markets we serve; the outcome of contingencies; the value of our contract awards; beliefs or expectations; the sufficiency of our cash and our capital needs and expenditures; our intellectual property protection; our compliance with regulatory requirements and the associated expenses; expectations regarding litigation; our intention not to pay cash dividends; seasonality of our business; the impact of foreign exchange and inflation; taxes; and assumptions underlying any of the foregoing. Forward-looking statements may be identified by the use of forward-looking terminology, such as “anticipates,” “believes,” “expects,” “may,” “should,” “would,” “will,” “intends,” “plans,” “estimates,” “strategy,” “projects,” “targets,” “goals,” “seeing,” “delivering,” “continues,” “forecasts,” “future,” “predict,” “might,” “could,” “potential,” or the negative of these terms, and similar words or expressions.

These forward-looking statements are based on estimates reflecting the current beliefs of the senior management of 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 Annual Report on Form 10-K. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, but are not limited to, the following:

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

Other factors besides those listed here also could adversely affect us. See “Item 1A. Risk Factors” in 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 any 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.

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, California 95054, and our telephone number is (408) 567-7000. Our common stock is listed on the NASDAQ Global Select Market under the symbol AVNW. As of July 1, 2016, we employed approximately 720 people, compared with approximately 780 people as of July 3, 2015.

Overview and Description of the Business

We design, manufacture and sell a range of wireless networking products, solutions and services to mobile and fixed public network operators, private network operators, Federal, State and Local government agencies, transportation, energy 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 resellers.

Our products utilize microwave and millimeter wave technologies to create point to point wireless links for short, medium and long distance interconnections. Our products incorporate Ethernet switching and IP routing capabilities to form complete networking solutions. We also provide network management software tools to enable our customers to deploy, monitor and manage our systems; third party equipment such as antennas, routers, optical transmission equipment and other equipment necessary to build and deploy a complete telecommunications transmission network. We provide a full suite of professional services for planning, deployment, operations and maintenance of our customers’ networks.

Our wireless systems deliver urban, suburban, regional and country-wide communications links as the primary alternative to fiber optic connections. In dense urban and suburban areas, short range wireless solutions are faster to deploy and lower cost per mile than new fiber deployments. In developing nations, fiber infrastructure is scarce and wireless systems are used for both long and short distance connections. Wireless systems also have advantages over optical fiber in areas with rugged terrain, and to provide connections over bodies of water such as between islands or even oil and gas production platforms.

Revenue from our North America and international regions represented approximately 47% and 53%, respectively, of our revenue in fiscal 2016, 46% and 54%, respectively, of our revenue in fiscal 2015, and 41% and 59%, respectively, of our revenue in fiscal 2014. Information about our revenue attributable to our geographic regions is set forth in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in “Note 9. Segment and Geographic Information” of the accompanying consolidated financial statements in this Annual Report on Form 10-K.

Market Overview

We believe that future demand for microwave and millimeter wave transmission systems will be influenced by a number of factors across several market segments.

Mobile Networks

As mobile networks expand, add subscribers and increase the number of wirelessly connected devices, sensors and machines, they require investment in backhaul infrastructure. Whether mobile network operators choose to self-build this backhaul infrastructure or lease backhaul services from other network providers, the evolution of the network drives demand for transmission technologies such as microwave and millimeter wave wireless backhaul. Within this overall scope there are multiple individual drivers for investment in backhaul infrastructure.

- *New RAN Technologies.* Mobile Radio Access Network (“RAN”) technologies are continually evolving. With evolution from 2G to 3G (HSPA), 4G (HSPA+ and LTE), and next 5G standards, technology is rapidly advancing and providing subscribers with higher speed access to the Internet, social media, and

video streaming services. The rapid increases in data to be transported through the RAN and across the backhaul infrastructure drives requirements for higher data transport links necessitating upgrades to or replacement of the existing backhaul infrastructure.

- *Subscriber Growth.* Traffic on the backhaul infrastructure increases as the number of unique subscribers grows.
- *Connected Devices.* The number of devices such as smart phones and tablets connected to the mobile network is far greater than the number of unique subscribers and is continuing to grow as consumers adopt multiple mobile device types. There is also rapid growth in the number and type of wireless enabled sensors and machines being connected to the mobile network creating new revenue streams for network operators in healthcare, agriculture, transportation and education. As a result, the data traffic crossing the backhaul infrastructure continues to grow rapidly.
- *IoT.* The Internet of Things (“IoT”) brings the potential of massive deployment of wireless end points for sensing and reporting data and remotely controlling machines and devices. The increase of data volume drives investment in network infrastructure.
- *RAN Capacity.* RAN frequency spectrum is a limited resource and shared between all of the devices and users within the coverage area of each base station. Meeting the combined demand of increasing subscribers and devices will require the deployment of much higher densities of base stations with smaller and smaller range (small cells) each requiring backhaul.
- *Geographic Coverage.* Expanding the geographic area covered by a mobile network requires the deployment of additional Cellular Base Station sites. Each additional base station site also needs to be connected to the core of the mobile network through expansion of the backhaul system.
- *License Mandates.* Mobile Operators are licensed telecommunications service providers. Licenses will typically mandate a minimum geographic footprint within a specific period of time and/or a minimum proportion of a national or regional population served. This can pace backhaul infrastructure investment and cause periodic spikes in demand.
- *Evolution to IP.* Network Infrastructure capacity, efficiency and flexibility is greatly enhanced by transitioning from legacy SDH (synchronous digital hierarchy) / SONET (synchronous optical network) / TDM (time division multiplexing) to IP (internet protocol) infrastructure. Our products offer integrated IP transport and routing functionality increasing the value they bring in the backhaul network.
- *Expansion of Offered Services.* Mobile network operators especially in emerging markets now own and operate the most modern communications networks within their respective regions. These network assets can be further leveraged to provide high speed broadband services to fixed locations such as small, medium and large business enterprises, airports, hotels, hospitals, and educational institutions. Microwave and millimeter wave backhaul is ideally suited to providing high speed broadband connections to these end points due to the lack of fiber infrastructure.

Other Vertical Markets

In addition to mobile backhaul, we see demand for microwave technology in other vertical markets, including utility, public safety, financial institutions and broadcast.

- 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.
- The investments in network modernization in the public safety market can significantly enhance the capabilities of security agencies. Improving border patrol effectiveness, enabling inter-operable emergency communications services for local or state police, providing access to timely information from centralized databases, or utilizing video and imaging devices at the scene of an incident requires a high bandwidth and reliable network. The mission critical nature of Public Safety and National security networks can require that these networks are built, operated and maintained independently of other public network infrastructure and microwave is very well suited to this environment because it is a cost-effective alternative to fiber.
- Microwave technology can be used to engineer long distance and more direct connections than Optical Cable. Microwave signals also travel through the air much faster than light through glass and the combined effect of shorter distance and higher speed reduces latency, which is valued for trading applications in the

financial industry. Our products have already been used to create low latency connections between major centers in the United States (“U.S.”), Europe and Asia and we see long-term interest in the creation of further low latency routes in various geographies around the world.

- The enhancement of Border Security and Surveillance networks to counter terrorism and insurgency is aided by the use of wireless technologies including microwave backhaul.

These factors are combining to create a range of opportunities for continued investment in backhaul and transport networks favoring microwave and millimeter wave technologies. 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 continued to invest in our microwave and IP Routing solutions, especially in expanding the software enabled features and functions of our CTR 8000 platform. The CTR is a transformational microwave product line since it efficiently integrates microwave transport and IP routing in a single solution. The software defined functionality of the CTR platform allows us to expand its capability over time and create further revenue generating software releases in the future. This is the first product in the industry to integrate Layer 3 MPLS and Microwave transmission functions in a single solution. We have continued to invest in our Eclipse IRU 600 platform which is targeted for our North America customer base with expansion of our industry leading power output capability across multiple frequency bands. We continue to invest in covering frequency bands to specifically address the needs of Federal Agencies facing the relocation of services from bands subject to Federal Communications Commission auction.

Our longer term technology development roadmap positions us for future network evolution and is crafted to maximize design re-use of critical hardware and software elements.

We continued to develop our professional services portfolio as a key to our long-term strategy and differentiation. During the year, we continued to expand the number of customer networks managed from our North America Network Operations Center. We began offering cloud based network management to select customers and we continue to offer training and accreditation programs for microwave and IP network design, deployment and maintenance.

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 address 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 research and development (“R&D”) efforts on core competency wireless innovations. Having a broader portfolio will enable us to further differentiate our 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 1,000,000 microwave radios in over 140 countries and are present in more than 350 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 and future 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 and millimeter wave 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 a full suite of professional services enabling us to deliver end-to-end turnkey networks, including complete design, deployment, maintenance, and managed 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 GHz to 90 GHz, and a wide range of transmission capacities, ranging up to over 4 Gbps. The major product families included in these solutions are CTR 8000, Eclipse, IRU 600 and ProVision, our network management software including the AviatCloud solution.

- *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 Carrier Ethernet and IP/MPLS (multiprotocol label switching)-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.
- *AviatCloud.* We have introduced AviatCloud which is an application based platform to automate and virtualize networks and their operations. Initial applications include cloud based network management and microwave network design. Further simplification of network planning, purchasing and lifecycle management will become available as we expand the scope of this application.

Business Operations

Sales and Service

Our primary route to market is through our own direct sales, service and support organization. This provides us with the best opportunity to leverage our role as a technology specialist and differentiate ourselves from competitors. Our focus on key customers and geographies allows us to consistently achieve high customer satisfaction ratings leading to a high level of customer retention and repeat business. Our highest concentrations of Sales and Service resources are in the United States, Western and Southern Africa, the Philippines, and the European Union. We maintain a presence in a number of other countries, some of which are based on customer locations and include, but not limited to, Nigeria, Kenya, Ghana, Ivory Coast, Algeria, South Africa, the United Arab Emirates, Saudi Arabia, Australia, Malaysia, New Zealand, Singapore, Slovenia and the Philippines.

In addition to our direct channel to market, we also have informal, and in some cases formal, relationships with original equipment manufacturers ("OEMs") and system integrators especially towards large and complex projects in National Security and Government related applications, which include, but not limited to, Nigeria, Kenya, Ghana, Ivory Coast, Algeria, South Africa, the United Arab Emirates, Saudi Arabia, Australia, Malaysia, New Zealand, Singapore, Slovenia and the Philippines. Our role in these relationships ranges from equipment supply only to being a sub-contractor for a portion of the project scope where we will supply equipment and a variety of design, deployment and maintenance services.

We also use indirect sales channels, including dealers, resellers and sales representatives, in the marketing and sale of some lines of products and equipment on a global basis. 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.

We have repair and service centers in India, Nigeria, Ghana, Mexico, the Philippines, the United Kingdom and the United States. 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 three years.

Manufacturing

Our global manufacturing strategy follows an outsourced manufacturing model using contract manufacturing partners in both the United States and Asia. Our strategy is based on balancing cost and supplier performance as well as taking into account qualification for localization requirements of certain market segments such as the Buy America statute.

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:

(In thousands)	July 1, 2016	July 3, 2015
North America	\$ 97,360	\$ 88,242
International	56,271	63,489
Total backlog	\$ 153,631	\$ 151,731

Our backlog consists primarily of contracts or purchase orders for both product and service deliveries and extended service warranties. 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 backlog as of July 1, 2016 during fiscal 2017, 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.

Customers

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.

During fiscal 2016, the Mobile Telephone Networks Group (“MTN Group”) in Africa accounted for 18% of our total revenue compared with 14% in fiscal 2015 and 17% in fiscal 2014. We have entered into separate and distinct contracts with MTN Group as well as separate arrangements with MTN Group subsidiaries. The loss of all or a substantial portion of MTN Group’s business could adversely affect our results of operations, cash flows and financial position.

Competition

The microwave and millimeter wave wireless networking business is a specialized segment of the wireless telecommunications industry that is sensitive to technological advancements and is extremely competitive. Our principal competitors include business units of large mobile and IP network infrastructure manufacturers such as Ericsson, Huawei, NEC and Nokia, as well as a number of other smaller public and other microwave specialists companies such as Ceragon, DragonWave and privately-held SIAE Microelectronica.

Some of our larger 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. They may from time to time leverage their extensive overall portfolios into completely outsourced and managed network offerings restricting opportunities for specialist suppliers. In addition, some competitors may offer seller financing, which can be a competitive advantage under certain economic climates.

Some of our larger competitors may also act as systems integrators through which we sometimes distribute and sell products and services to end users.

The smaller independent private and public specialist competitors typically leverage new technologies and low products costs, but are generally less capable of offering a complete solution including professional services, especially in the North America and Africa regions which form the majority of our addressed market.

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 and Development

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 and development expenditures totaled \$20.8 million, or 7.7% of revenue, in fiscal 2016, \$25.4 million, or 7.6% of revenue, in fiscal 2015, and \$35.5 million, or 10.3% of revenue, in fiscal 2014.

Research and development 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.

Our product development teams numbered 134 employees as of July 1, 2016, and were located in Santa Clara, California; Wellington, New Zealand; Ljubljana, Slovenia; and Montreal, Canada.

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, ASIC's and MMICs (types 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.

Although 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 July 1, 2016, we held 167 U.S. patents and 65 international patents and had 31 U.S. patent applications pending and 50 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.

Although 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 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.

We are in the process of developing comprehensive policies and procedures concerning conflict minerals compliance.

Employees

As of July 1, 2016 we employed approximately 720 people, compared with approximately 780 as of the end of fiscal 2015 and approximately 960 as of the end of fiscal 2014. Approximately 270 of our employees are located in the U.S. We also utilized approximately 70 independent contractors as of July 1, 2016. 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 employee relations 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 8, 2016, are as follows:

<u>Name and Age</u>	<u>Position Currently Held and Past Business Experience</u>
Michael A. Pangia, 55	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.
Ralph Marimon, 59	Mr. Marimon joined Aviat Networks in May 2015 as our Senior Vice President, Finance and Chief Financial Officer and is responsible for the finance and IT organizations. Before joining Aviat, Mr. Marimon served as Vice President, Finance and Chief Financial Officer of QuickLogic, a provider of ultra-low power, customizable semiconductor solutions for smartphone, tablet, wearable, and mobile enterprise OEMs, since 2008. Prior to QuickLogic, Mr. Marimon served as Chief Financial Officer within a variety of organizations including Anchor Bay Technologies, Inc., Tymphony Corporation, and Scientific Technologies Incorporated. From 1999 to 2003, he served at Com21 Corporation, a global supplier of system solutions for the broadband access market, where he was promoted from Corporate Controller to Vice President of Finance and Chief Financial Officer. Prior to Com21, Mr. Marimon was at KLA-Tencor Corporation for 11 years in a variety of senior executive financial management positions.
Meena Elliott, 53	Ms. Elliott was appointed Senior Vice President, Chief Legal and Administrative Officer, Corporate Secretary in February 2015 and is responsible for the global legal and human resources organizations. From September 2011 to February 2015, she served as Senior Vice President, General Counsel, Secretary and had responsibilities for the global legal organization and took on responsibilities for global human resources organizations in 2014. From July 2009 to August 2011, she served as Vice President, General Counsel and Secretary. She joined our company as Associate General Counsel and Assistant Secretary in January 2007 when Harris Corporation's MCD and Stratex Networks merged. Ms. Elliott joined MCD as Division Counsel in March 2006. Prior to joining MCD, she was Chief Counsel at the Department of Commerce from 2002 to 2006.
Heinz H. Stumpe, 61	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 Operation Officer since June 30, 2008. Previously, he was Vice President, Global Operations for Aviat Networks and Stratex Networks. He joined Stratex Networks as Director of 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.
Shaun McFall, 56	Mr. McFall was appointed Chief Strategy Officer in 2015. He was 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.

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

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 (the "Exchange Act") 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.

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 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.

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

As measured under U.S. generally accepted accounting principles ("U.S. GAAP"), we incurred net losses of \$29.6 million in fiscal 2016, \$24.6 million in fiscal 2015 and \$51.1 million in fiscal 2014 and have been unprofitable since we became a public company in January 2007. We also have incurred losses from operations in all fiscal years since we became a public company, although we previously generated cash from operations in fiscal 2013, 2012, 2010 and 2009.

Throughout fiscal 2016 we experienced strong price competition for new business in all regions while major customer consolidations from prior years also put pressure on revenue and gross margin. We saw pricing pressures in all markets, with increased pressure in international markets. Customer consolidation may have an increasing negative impact on our revenue if Aviat is not selected as a vendor for the products and/or services we provide. In order to counter pricing pressures, we invested heavily in product improvements to reduce unit costs and enhance product features, decreased overall company expenses, 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, or achieve the projected cost reductions, 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.

Our sales cycle may be lengthy, and the timing of sales, along with additional services such as warehousing, inventory management, 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 of the sale of products and amounts of revenue generated from sales of our products, primarily in developing countries. 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. 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, the design process required to integrate our products into our customers' networks and warehousing and/or inventory management services that may be requested by certain large customers. In anticipation of product orders, we may incur substantial costs before the sales cycle is complete and before we receive any customer payments. Specifically, should a customer require warehousing and/or inventory management services, such services may impact our operating results in any period due to the costs associated with providing such services and the fact that the timing of the revenue recognition may be delayed. 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 recognition 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 services such as warehousing and inventory management, 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, each of 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.

Our average sales prices may decline in the future.

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 and if we are unable to do so, we may not be able to respond to pricing pressures. 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.

We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.

We believe that our existing cash and cash equivalents, the available line of credit under our credit 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. However, it is possible that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our longer term capital needs. If this occurs, we may need to sell assets, reduce capital expenditures, or obtain additional equity or debt financing. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms if and when needed, our business, financial condition and results of operations could be harmed.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders.

Due to the volume of our international sales, 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 2016, 2015 and 2014, our sales to international customers accounted for 55%, 55% and 60%, respectively, of total revenue. 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 could result in a significant decline in revenue. In addition, compliance 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;
- availability of U.S. dollars especially in countries with economies highly dependent on resource exports, particularly oil; 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.

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. In addition, if local currencies cannot be hedged, we have an inherent exposure in our ability to convert monies at favorable rates from 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 reorganization laws of the applicable jurisdiction, or have experienced financial difficulties. The financial healthiness 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.

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 potential future restructurings. Any restructuring activities may harm our business.

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 and again in fiscal 2016, we have undertaken a series of steps to restructure 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 \$2.5 million, \$4.9 million and \$11.2 million in fiscal 2016, 2015 and 2014, respectively.

We have based our restructuring efforts on assumptions and plans regarding the appropriate cost structure of our business based on our product mix and projected sales, among other factors. Some of our assumptions include the elimination of jobs and the outsourcing of certain functions to reduce our operating expenses. These assumptions may not be accurate 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 our restructuring actions or that we will not further reduce or otherwise adjust our workforce or exit, or dispose of, certain businesses and product lines. Any decision to further limit investment, exit, or disposal of businesses or product lines may result in the recording of additional restructuring charges. Consequently, 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.

Our restructuring actions could harm our relationships with our employees and impact our ability to recruit new employees.

Employees, whether or not directly affected by any restructuring actions that we undertake, 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 the ongoing business.

Our business could be adversely affected if we are unable to attract and retain key personnel.

Our success and ability to invest and grow depend largely on our ability to attract and retain highly skilled technical, professional, managerial, sales and marketing personnel. Historically, competition for these key personnel has been intense. The loss of services of any of our key personnel, the inability to retain and attract qualified personnel in the future, delays in hiring required personnel, particularly engineering and sales personnel, or the loss of key personnel to competitors could make it difficult for us to meet key objectives, such as timely and effective product introductions and financial goals.

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 and services 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. Additionally, we work closely with a variety of third party partners to develop new product features and new platforms. Should our partners face delays in the development process, then the timing of the rollout of our new products may be significantly impacted which may negatively impact our revenue and gross margin. 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 face significant risk that the development of our new products may not be accepted by our current customers or by new 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 write-downs 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.

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 based on geographic and product mix;

- 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;
- the length of our sales cycle;
- litigation costs and expenses;
- continued timely rollout of new product functionality and features;
- increased competition resulting in downward pressure 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;
- restructuring and streamlining 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;
- general economic conditions worldwide that affect demand and financing for microwave and millimeter wave telecommunications networks; and
- 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 competitive actions 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.

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

The wireless access, interconnection and backhaul business is a specialized segment of the wireless telecommunications industry and is extremely competitive. Competition in this segment is intense, and we expect it 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 Ericsson, Huawei, NEC and Nokia, as well as a number of other public and private companies, such as Ceragon, DragonWave and SIAE. 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 competition.

Our ability to compete successfully will depend on a number of factors, including price, quality, availability, customer service and support, breadth of product lines, 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.

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 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.

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 2016, 2015 and 2014, we recorded charges to reduce the carrying value of our inventory which totaled \$9.9 million, \$8.0 million and \$7.2 million, respectively. Such charges equaled 3.7%, 2.4% and 2.1% of our revenue in fiscal 2016, 2015 and 2014, respectively. These charges were primarily due to excess and obsolete inventory resulting from lower forecast, product transitioning or 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 inaccuracies in the forecasting process, cancellation of customer orders or our customers' refusal to confirm the acceptance of our products. Our forecasting process is based on information discussed with customers concerning future orders. If a customer chooses to revise or hold on placing the order, we may see an unfavorable impact on our inventory given the customization that is involved in 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 down. If we are forced to write down inventory other than in the normal course of business, our business, financial condition and results of operations could be materially adversely affected.

The effects of the poor global financial and economic conditions in certain markets has had, and may continue to have, significant effects on our customers and suppliers, and has in the past, and may in the future have, a material adverse effect on our business, operating results, financial condition and stock price.

The effects of poor global financial and economic conditions in certain markets 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.

Poor economic conditions in certain markets have adversely affected and may continue to 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 effectively compete or we may choose not to compete due to unacceptable margins.

In addition, poor economic conditions in certain markets could 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 levels, or result in their ceasing operations. Further, with respect to our credit facility discussed under "Liquidity, Capital Resources and Financial Strategies" in Item 7 of this Annual Report on Form 10-K, if continued uncertain economic conditions adversely affect Silicon Valley Bank, our ability to access the funds available under our 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.

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 are 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 materially adversely affected.

As a result of changes in tax laws, treaties, rulings, regulations or agreements, or their interpretation, of any country in which we operate, the loss of a major tax dispute or a successful challenge to our operating structure, intercompany pricing policies or the taxable presence of our key subsidiaries in certain countries, or other factors, our effective tax rate could be highly volatile and could adversely affect our operating results.

We operate in multiple jurisdictions and our profits are taxed pursuant to the tax laws of these jurisdictions. 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;
- ability to utilize net operating loss;
- 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.

Our ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes and other tax benefits may be limited.

Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) imposes an annual limitation on the amount of taxable income that may be offset if a corporation experiences an “ownership change” as defined in Section 382 of the Code. An ownership change occurs when a company’s “five-percent shareholders” (as defined in Section 382 of the Code) collectively increase their ownership in the company by more than 50 percentage points (by value) over a rolling three-year period. Additionally, various states have similar limitations on the use of state net operating losses (“NOL”) following an ownership change.

If we experience an ownership change, our ability to use our NOLs, any loss or deducting attributable to a “net unrealized built-in loss” and other tax attributes (collectively, the “Tax Benefits”) could be substantially limited, and the timing of the usage of the Tax Benefits could be substantially delayed, which could significantly impair the value of the Tax Benefits. There is no assurance that we will be able to fully utilize the Tax Benefits and we could be required to record an additional valuation allowance related to the amount of the Tax Benefits that may not be realized, which could adversely impact our result of operations.

We believe that these Tax Benefits are a valuable asset for us. On September 6, 2016, our Board of Directors approved a Tax Benefit Preservation Plan (the “Plan”) in an effort to protect our Tax Benefits during the effective period of the Plan. Further, on September 6, 2016, our Board of Directors adopted certain amendments to our Amended and Restated Certificate of Incorporation, as amended (the “Charter Amendments”), which are intended to preserve the Tax Benefits by restricting certain transfers of our common stock. The Plan and the Charter Amendments will be submitted to a stockholder vote at our 2016 annual meeting of stockholders. If our stockholders do not approve the Plan, it will expire. If our stockholders do not approve the Charter Amendments, they will not become effective. Although the Plan and the Charter Amendments are intended to reduce the likelihood of an “ownership change” that could adversely affect us, there is no assurance that the restrictions on transferability in the Plan and the Charter Amendments will prevent all transfers that could result in such an “ownership change.” There also can be no assurance that the transfer restrictions in the Charter Amendments, if they become effective, will be enforceable against all of our stockholders absent a court determination confirming such enforceability. The transfer restrictions may be subject to challenge on legal or equitable grounds.

The Plan and the Charter Amendments could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, us or a large block of our common stock. A third party that acquires 4.9% or more of our

common stock could suffer substantial dilution of its ownership interest under the terms of the Plan through the issuance of common stock or common stock equivalents to all stockholders other than the acquiring person. The acquisition may also be void under the Charter Amendments.

The foregoing provisions may adversely affect the marketability of our common stock by discouraging potential investors from acquiring our stock. In addition, these provisions could delay or frustrate the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, or impede an attempt to acquire a significant or controlling interest in us, even if such events might be beneficial to us and our stockholders.

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 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 following risk factor. 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.

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. During fiscal 2016, 2015 and 2014, we had one international customer in Africa, MTN Group that accounted for 18%, 14% and 17%, respectively, of our total revenue. 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 become even more 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 could result in declines in our revenue or an inability to grow revenue. In addition, further 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.

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.

We continually evaluate strategic opportunities which could involve merger and/or acquisition activities that could disrupt our operations and harm our operating results.

Our growth depends upon market growth, our ability to enhance our existing products and our ability to introduce new products on a timely basis. We intend to continue to address the need to develop new products and enhance existing products through acquisitions, or “tuck-ins,” product lines, technologies, and personnel. Acquisitions involve numerous risks, including the following:

- difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired companies, particularly companies with large and widespread operations and/or complex products;
- diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions;
- potential difficulties in completing projects associated with in-process research and development intangibles;
- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in each market have stronger market positions;
- initial dependence on unfamiliar supply chains or relatively small supply partners;
- insufficient revenue to offset increased expenses associated with acquisitions; and
- the potential loss of key employees, customers, resellers, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans.

Acquisitions may also cause us to:

- issue common stock that would dilute our current stockholders;
- use a substantial portion of our cash resources, or incur debt;
- significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition;
- assume material liabilities;
- record goodwill and non-amortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets;
- incur tax expenses related to the effect of acquisitions on our intercompany R&D cost sharing arrangement and legal structure;
- incur large and immediate write-offs and restructuring and other related expenses; and
- become subject to intellectual property or other litigation.

Mergers and acquisitions of high-technology companies are inherently risky and subject to many factors outside of our control. No assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Even when an acquired company has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products.

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 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.

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 market our products through indirect sales channels such as independent agents, resellers, 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 our current relationships or develop new ones. 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, or we fail to obtain regulatory approval for our products, our ability to market our products may be restricted.

We will be affected by the allocation and auction of the radio frequency spectrum by governmental authorities both in the U.S. and internationally. These 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.

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.

Our business is subject to changing regulation of corporate governance, public disclosure and anti-bribery measures which 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 (“NASDAQ”) 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 several foreign governments such as the governments of the United Kingdom and Brazil, have issued requirements, laws and regulations and continue to develop additional requirements, laws and regulations, 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 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.

In previous periods, we identified material weaknesses in our internal control over financial reporting and, if we are unable to satisfy regulatory requirements relating to internal controls or if our internal control over financial reporting is not effective, our business and stock price could be adversely affected.

In connection with Section 404 of the Sarbanes-Oxley Act, we have identified in the past and may, in the future, identify deficiencies in our internal control over financial reporting. In connection with the audit of our consolidated financial statements as of and for the years ended July 3, 2015 and June 27, 2014, we have concluded that there were material weaknesses related to our internal control over financial reporting. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective as of July 3, 2015 and June 27, 2014, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-An Integrated Framework (2013). Although we believe that we have remediated these material weaknesses as of July 1, 2016, if we identify additional material weaknesses in our internal controls are identified in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results. We could also be subject to litigation which, whether meritorious or not, could be time consuming, costly or divert significant operational resources. Further, we could lose investor confidence in the accuracy and completeness of our financial reports, and our reputation, business, results of operations and stock price could be adversely affected.

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. 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. 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. 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.

We may be subject to litigation regarding our intellectual property. 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.

System security risks, data protection breaches, and cyber attacks could compromise our proprietary information, disrupt our internal operations and harm public perception of our security products, which could cause our business and reputation to suffer and adversely affect our stock price.

In the ordinary course of business, we store sensitive data, including intellectual property, our proprietary business information and proprietary information of our customers, suppliers and business partners, on our networks. The secure maintenance of this information is critical to our operations and business strategy. Increasingly, companies, including ours, are subject to a wide variety of attacks on their networks on an ongoing basis. Despite our security measures, our information technology and infrastructure may be vulnerable to penetration or attacks by computer programmers and hackers, or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks could be accessed, publicly disclosed, lost or stolen, which could subject us to liability to our customers, suppliers, business partners and others, and cause us reputational and financial harm. In

addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of our networks.

If an actual or perceived breach of network security occurs in our network or in the network of a customer of our security products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products could be harmed. Because the techniques used by computer programmers and hackers, many of whom are highly sophisticated and well-funded, to access or sabotage networks change frequently and generally are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could impede our sales, manufacturing, distribution or other critical functions. In addition, the economic costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software systems and security vulnerabilities could be significant and may be difficult to anticipate or measure because the damage may differ based on the identity and motive of the programmer or hacker, which are often difficult to identify.

Anti-takeover provisions of Delaware law, the Plan, and provisions in our Amended and Restated Certificate of Incorporation, as amended, 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 supported by our 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, as amended, 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.

In addition, the Plan and the Charter Amendments could make an acquisition of us more difficult, and certain acquisitions may also be void under the Charter Amendments. The risks associated with the Plan and the Charter Amendments are described in more detail above under the heading “Our ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes and other tax benefits may be limited.”

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of July 1, 2016, we leased approximately 294,000 square feet of facilities worldwide, with approximately 62% in the United States, mostly in California, Texas, and North Carolina. Our corporate headquarters is located in Santa Clara, California, and consists of a building of approximately 129,000 square feet. In June 2016, we entered into a lease agreement for our new corporate headquarters in Milpitas, California with a term of 60 months which consists of approximately 19,000 square feet office space. In the same month, we signed a lease termination agreement for our current headquarters lease. We expect to complete the move of our corporate headquarters to Milpitas, California by September 2016. We also lease approximately 54,000 square feet of office, assembly facilities and warehouse in certain locations in Texas. Internationally, we lease approximately 111,000 square feet of facilities throughout Europe, Canada, Central America, South America, Africa and Asia regions, including offices in Singapore, Slovenia, Philippine Islands, India, Mexico, Brazil, South Africa, Ghana, Ivory Coast, Kenya, Nigeria, Algeria, France, Netherlands, Poland, Russia, Australia, Dubai, Saudi Arabia, Lebanon, China, and Thailand. In addition, we own approximately 108,000 square feet of facilities in Wellington, New Zealand and Lanarkshire, Scotland.

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 12. Commitments and Contingencies” of the notes to consolidated financial statements, which are included in Item 8 in this Annual Report on Form 10-K.

Item 3. Legal Proceedings

We are subject from time to time to disputes with customers concerning our products and services. In May 2016, we received notification of a claim for \$1.0 million in damages from a customer in Austria alleging that certain of our products were defective. We are continuing to investigate this claim, and at this time an estimate of the reasonably possible loss or range of loss cannot be made. In August 2016, we received a correspondence from a customer in Africa demanding that certain inventory aggregating \$1.0 million be repurchased under the terms of an inventory management agreement that we believe has expired. We are continuing to investigate this demand, and at this time an estimate of the reasonably possible loss or range of loss cannot be made. We believe that we have numerous contractual and legal defenses to these disputes, which are in their early stages, and we intend to dispute them vigorously.

From time to time, we may be involved in various other legal claims and litigation that arise in the normal course of our operations. We are aggressively defending all current litigation matters. Although there can be no assurances and the outcome of these matters is currently not determinable, we currently believe that none of these claims or proceedings are likely to have a material adverse effect on our financial position. We expect to defend each of these disputes vigorously. There are many uncertainties associated with any litigation and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. As a result, our business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from our estimates, if any.

We record accruals for our outstanding legal proceedings, investigations or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. We evaluate, at least on a quarterly basis, developments in legal proceedings, investigations or claims that could affect the amount of any accrual, as well as any developments that would result in a loss contingency to become both probable and reasonably estimable. We have not recorded any accrual for loss contingencies associated with such legal claims or litigation discussed above.

Item 4. Mine Safety Disclosures

Not applicable.

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 Select Market, 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 18, 2016, there were 2,666 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 Select Market for the periods indicated during our fiscal years 2016 and 2015, as adjusted for the 1-for-12 reverse stock split discussed in "Note 1. The Company and Summary of Significant Accounting Policies" of the notes to consolidated financial statements, which are included in Item 8 in this Annual Report on Form 10-K:

	Fiscal 2016		Fiscal 2015	
	High	Low	High	Low
First Quarter	\$15.96	\$12.48	\$21.36	\$13.92
Second Quarter	\$14.04	\$8.92	\$22.80	\$15.84
Third Quarter	\$9.57	\$6.60	\$18.24	\$13.20
Fourth Quarter	\$9.31	\$6.18	\$15.84	\$13.44

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 credit facility may restrict us from paying dividends or making other distributions to our stockholders under certain circumstances.

Sales of Unregistered Securities

During fiscal 2016, we did not issue or sell any unregistered securities.

Issuer Repurchases of Equity Securities

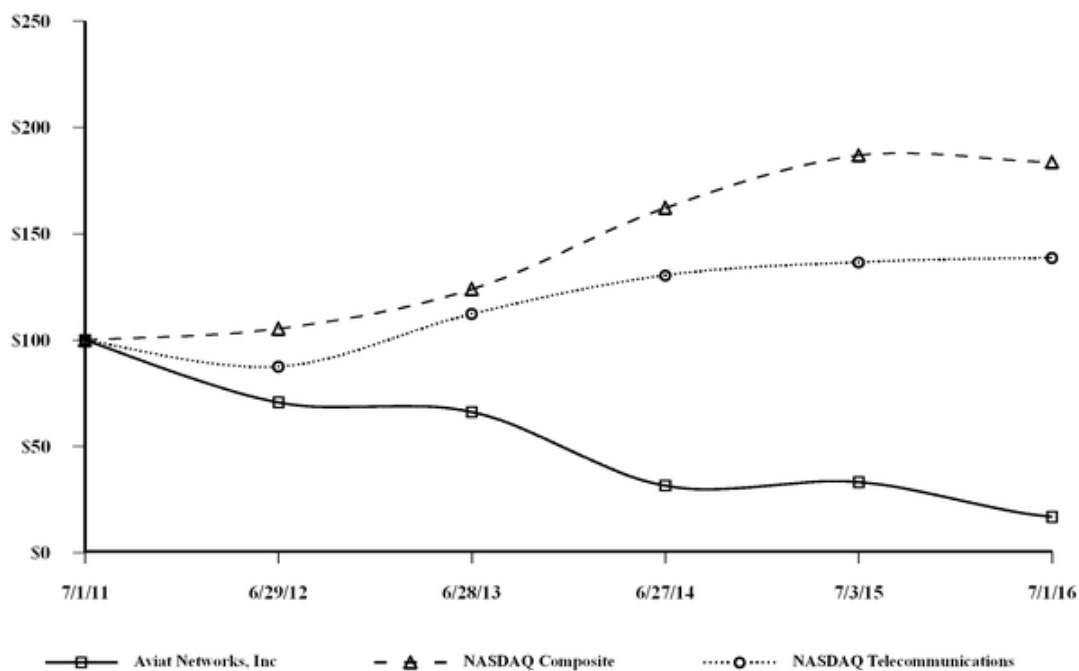
During fiscal 2016, we did not repurchase any equity securities.

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 July 1, 2016. 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 SEC.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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



	7/1/2011	6/29/2012	6/28/2013	6/27/2014	7/3/2015	7/1/2016
Aviat Networks, Inc.	100.00	70.70	66.15	31.57	33.21	16.93
NASDAQ Composite	100.00	105.37	123.92	162.15	186.87	183.65
NASDAQ Telecommunications	100.00	87.44	112.30	130.47	136.62	138.62

* Assumes (i) \$100 invested on July 1, 2011 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 consolidated financial statements. All per-share data have been retroactively adjusted for the 1-for-12 reverse stock split discussed in “Note 1. The Company and Summary of Significant Accounting Policies” of the notes to consolidated financial statements, which are included in Item 8 of this Annual Report of Form 10-K. Data presented for fiscal years 2016, 2015 and 2014 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.

(In thousands)	Fiscal Year Ended				
	July 1, 2016	July 3, 2015	June 27, 2014(1)	June 28, 2013(1)	June 29, 2012(Unaudited)(1)
Revenue from product sales and services	\$ 268,690	\$ 335,878	\$ 346,032	\$ 471,255	\$ 444,032
Cost of product sales and services	206,973	255,188	260,844	332,913	312,639
Loss from continuing operations ⁽²⁾⁽³⁾	(30,178)	(24,648)	(52,018)	(12,647)	(15,822)
Net loss ⁽²⁾⁽³⁾	(29,637)	(24,554)	(51,100)	(16,725)	(24,466)
Net income attributable to noncontrolling interests, net of tax	270	71	—	—	—
Net loss attributable to Aviat Networks ⁽²⁾⁽³⁾	(29,907)	(24,625)	(51,100)	(16,725)	(24,466)
Basic and diluted loss per common share:					
Loss from continuing operations	\$ (5.81)	\$ (4.77)	\$ (10.13)	\$ (2.53)	\$ (3.22)
Net loss	(5.71)	(4.75)	(9.95)	(3.34)	(4.97)

(1) As revised, during the fourth quarter of fiscal 2015, these amounts have been revised as we identified and corrected errors around our accrued liability related to cost of services revenue.

(2) Include share-based compensation expense \$1.8 million, \$2.2 million, \$3.4 million, \$6.4 million and \$5.2 million for fiscal 2016, 2015, 2014, 2013 and 2012 respectively.

(3) Include restructuring charges of \$2.5 million, \$4.9 million, \$11.2 million, \$3.1 million and \$2.3 million for fiscal 2016, 2015, 2014, 2013 and 2012 respectively.

(In thousands)	As of				
	July 1, 2016	July 3, 2015	June 27, 2014(1)	June 28, 2013(1)	June 29, 2012(Unaudited)(1)
Total assets	\$ 166,111	\$ 224,715	\$ 253,184	\$ 305,816	\$ 329,634
Long-term liabilities	12,707	18,198	19,574	24,825	24,747

(1) As revised, during the fourth quarter of fiscal 2015, these amounts have been revised as we identified and corrected errors around our accrued liability related to cost of services revenue.

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

Overview of Business; Operating Environment and Key Factors Impacting Fiscal 2015 and 2016 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 ending June 30, 2017 is referred to as "fiscal 2017" or "2017"; our fiscal year ended July 1, 2016 is referred to as "fiscal 2016" or "2016"; our fiscal year ended July 3, 2015 is referred to as "fiscal 2015" or "2015"; and our fiscal year ended June 27, 2014 is referred to as "fiscal 2014" or "2014."

Overview

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 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.

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 fiscal 2017 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 continue to examine our products, markets, facilities, development programs, and operational flows to ensure we are focused on what we do well and what will differentiate us in the future. We will continue working to streamline management processes to attain the efficiency levels required by the markets in which we do business.

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

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

Operations Review

The market for mobile backhaul continues to be our primary addressable market segment and, over the long term, the demand for increasing the backhaul capacity in our customers' networks continues to grow. In North America we supported long-term evolution ("LTE") deployments of our mobile operator customers, public safety network deployments for state and local governments, and private network implementations for utilities and other customers. Our international business was adversely affected in fiscal 2016 by constrained availability of U.S. dollars in countries with economies highly dependent on resource exports, particularly oil. This condition limited capital spending and slowed payments from customers in those locations. In international markets, our business continued to rely on a combination of customers increasing their capacity to handle subscriber growth, the ongoing build-out of some large 3G deployments, and the emergence of early stage LTE deployments. Our position continues to be to support our customers for LTE readiness and ensure that our technology roadmap is well aligned with evolving market requirements. We continue to

find that our strength in turnkey and after-sale support services is a differentiating factor that wins business for us and enables us to expand our business with existing customers in all markets. However, as disclosed above and in the “Risk Factors” section in Item 1A of this Annual Report on Form 10-K, a number of factors could prevent us from achieving our objectives, including ongoing pricing pressures attributable to competition and macroeconomic conditions in the geographic markets that we service.

Revenue

We manage our sales activities primarily on a geographic basis in North America and three international geographic regions: (1) Africa and Middle East, (2) Europe and Russia and (3) Latin America and Asia Pacific. Revenue by region for fiscal 2016, 2015 and 2014 and the related changes were shown in the table below:

(In thousands, except percentages)	Fiscal Year			\$ Change		% Change	
	2016	2015	2014	2016/2015	2015/2014	2016/2015	2015/2014
North America	\$ 125,482	\$ 153,239	\$ 142,027	\$ (27,757)	\$ 11,212	(18.1)%	7.9%
Africa and Middle East	82,742	97,112	108,906	(14,370)	(11,794)	(14.8)%	(10.8)%
Europe and Russia	20,539	35,990	36,043	(15,451)	(53)	(42.9)%	(0.1)%
Latin America and Asia Pacific	39,927	49,537	59,056	(9,610)	(9,519)	(19.4)%	(16.1)%
Total Revenue	\$ 268,690	\$ 335,878	\$ 346,032	\$ (67,188)	\$ (10,154)	(20.0)%	(2.9)%

Our revenue in North America decreased \$27.8 million, or 18.1%, in fiscal 2016 compared with fiscal 2015. While our order volume increased in North America compared to fiscal 2015, we experienced a shift in the mix of business away from wireless operator customers and toward private networks operated by governments and utilities. The decrease in the North America wireless operator customers revenue was due primarily to them reaching the end of their LTE network build cycle. In addition, orders from private networks generally have a longer cycle time from order placement to completion for revenue than orders from the wireless operators, owing to the larger degree of service content included with the private network projects. In fiscal 2016 we saw a decrease in revenue both from the lower volume of business with wireless operator customers and from the longer cycle time to revenue from the larger volume of business with private network customers. Revenue in North America increased \$11.2 million, or 7.9%, in fiscal 2015 compared with fiscal 2014. The increase in North America primarily resulted from increase of revenue from the government and utility markets, while revenue from network operator customers declined in fiscal 2015 compared with fiscal 2014.

Revenue in Africa and Middle East decreased \$14.4 million, or 14.8%, in fiscal 2016 compared with fiscal 2015. The fiscal 2016 decrease in revenue came from decreased sales volume to our private network customers in the Middle East and across several customers in Africa. Revenue with our major wireless operator customers in the region remained relatively low, and slightly down in fiscal 2016 compared to fiscal 2015. Revenue in Africa and Middle East decreased \$11.8 million, or 10.8%, in fiscal 2015 compared with fiscal 2014, reflecting network operator capital spending restraint in fiscal 2015 compared with fiscal 2014.

Revenue in Europe and Russia was down \$15.5 million, or 42.9%, in fiscal 2016 compared with fiscal 2015. The decrease came from lower sales to our large customers in the region compared with the same periods in fiscal 2015. Both the unfavorable currency exchange rate change on our U.S. dollar based prices and limited customer capital spending in the region contributed to lower revenue volume during fiscal 2016. Revenue in Europe and Russia remained approximately the same for fiscal 2015 compared with fiscal 2014.

Revenue in Latin America and Asia Pacific declined \$9.6 million, or 19.4%, in fiscal 2016 compared with fiscal 2015, mostly due to lower product sales to several mid-size customers in Asia Pacific, partially offset by a large increase with one of our major customers in the region. The decrease was also attributable to a year-to-year reduction in sales to private network customers in Latin America. Revenue in Latin America and Asia Pacific declined \$9.5 million, or 16.1%, in fiscal 2015 compared with fiscal 2014, mostly due to lower product sales to our customers in Latin America.

(In thousands, except percentages)	Fiscal Year			\$ Change		% Change	
	2016	2015	2014	2016/2015	2015/2014	2016/2015	2015/2014
Product sales	\$ 167,827	\$ 214,874	\$ 222,628	\$ (47,047)	\$ (7,754)	(21.9)%	(3.5)%
Services	100,863	121,004	123,404	(20,141)	(2,400)	(16.6)%	(1.9)%
Total Revenue	\$ 268,690	\$ 335,878	\$ 346,032	\$ (67,188)	\$ (10,154)	(20.0)%	(2.9)%

Our revenue from product sales decreased \$47.0 million, or 21.9%, in fiscal 2016 compared with fiscal 2015. Product volumes were lower in all sectors, but the majority of the decrease was in North America and Europe. In North America this decline reflected fewer orders from wireless operators and the extended cycle time to complete large projects. In Europe, this decline reflected constrained capital spending mentioned above. Our service revenue decreased \$20.1 million, or 16.6%, in fiscal 2016 compared with fiscal 2015, due to reduced service activities in all sectors, but particularly in North America, Middle East and Africa.

Our revenue from product sales decreased \$7.8 million, or 3.5%, in fiscal 2015 compared with fiscal 2014. The decrease came primarily from weaker product sales in Africa and Latin America, offset in part by stronger product sales in North America, Europe and Asia. Our services revenue decreased \$2.4 million, or 1.9%, in fiscal 2015 compared with fiscal 2014, due to reduced service activities in Asia Pacific, Europe and Latin America, partially offset by increased service activities in Africa and North America.

During fiscal 2016, the MTN Group in Africa accounted for 18% of our total revenue compared with 14% in fiscal 2015 and 17% in fiscal 2014. We have entered into separate and distinct contracts with MTN Group as well as separate arrangements with various MTN Group subsidiaries. The loss of all or a substantial portion of MTN Group's business could adversely affect our results of operations, cash flows and financial position.

Gross Margin

(In thousands, except percentages)	Fiscal Year			\$ Change		% Change	
	2016	2015	2014	2016/2015	2015/2014	2016/2015	2015/2014
Revenue	\$ 268,690	\$ 335,878	\$ 346,032	\$ (67,188)	\$ (10,154)	(20.0)%	(2.9)%
Cost of revenue	206,973	255,188	260,844	(48,215)	(5,656)	(18.9)%	(2.2)%
Gross margin	\$ 61,717	\$ 80,690	\$ 85,188	\$ (18,973)	\$ (4,498)	(23.5)%	(5.3)%
% of revenue	23.0%	24.0%	24.6%				
Product margin %	23.3%	23.7%	22.4%				
Service margin %	22.4%	24.5%	28.6%				

Gross margin for fiscal 2016 decreased \$19.0 million, or 23.5%, compared with fiscal 2015, primarily due to decreased revenue volume across all business sectors during fiscal 2016, partially offset by reduced supply chain costs compared with fiscal 2015. Gross margin as a percentage of revenue decreased in fiscal 2016 compared with fiscal 2015 primarily due to the large drop in revenue volume relative to supply chain costs during the year. Product margin as a percentage of product revenue decreased from fiscal 2015 primarily due to supply chain costs being absorbed by a substantially smaller volume of product sales during the year and an increase in inventory write-down of \$2.9 million. Service margin as a percentage of service revenue declined primarily due to a less profitable service business in international markets.

Gross margin for fiscal 2015 decreased \$4.5 million, or 5.3%, compared with fiscal 2014, primarily due to decreased profitability in Africa, Middle East, Europe and Latin America and a \$2.5 million increase in foreign exchange loss, partially offset by improved profitability in North America and Asia along with reduced supply chain costs compared with fiscal 2014. Gross margin as a percentage of revenue decreased in fiscal 2015 compared with fiscal 2014 primarily due to lower profitability in Africa, Middle East, Europe and Latin America and increased foreign exchange losses compared with fiscal 2014, partially offset by higher gross margin rates in North America and Asia. Product margin as a percentage of product revenue increased over fiscal 2014 primarily to a greater portion of the overall business coming from North America along with improved pricing in that market, and better pricing on sales in Asia. Service margin as a percentage of service revenue declined primarily due to a less profitable service business in international markets.

Research and Development Expenses

(In thousands, except percentages)	Fiscal Year			\$ Change		% Change	
	2016	2015	2014	2016/2015	2015/2014	2016/2015	2015/2014
Research and development expenses	\$ 20,806	\$ 25,368	\$ 35,478	\$ (4,562)	\$ (10,110)	(18.0)%	(28.5)%
% of revenue	7.7%	7.6%	10.3%				

Our R&D expenses decreased \$4.6 million, or 18.0%, in fiscal 2016 compared with fiscal 2015. The decrease in R&D expenses was primarily due to a \$4.4 million reduction in personnel and related expenses due to the restructuring programs implemented, and \$1.8 million facility expense reassigned to restructuring accounts. The decreases were partially offset by a \$1.7 million increase in professional services and material spending for new products. 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 decreased \$10.1 million, or 28.5%, in fiscal 2015 compared with fiscal 2014. The decrease in R&D expenses was primarily due to a \$7.2 million reduction in personnel and related expenses, a \$1.2 million decrease in new product development costs, a \$2.0 million decrease in facility expense, a \$0.2 million decrease in travel expense and a \$0.2 million decrease in share-based compensation expenses. These decreases were primarily due to restructuring initiatives implemented in Santa Clara, California.

Selling and Administrative Expenses

(In thousands, except percentages)	Fiscal Year			\$ Change		% Change	
	2016	2015	2014	2016/2015	2015/2014	2016/2015	2015/2014
Selling and administrative expenses	\$ 65,902	\$ 76,005	\$ 88,776	\$ (10,103)	\$ (12,771)	(13.3)%	(14.4)%
% of revenue	24.5%	22.6%	25.7%				

Our selling and administrative expenses decreased \$10.1 million, or 13.3%, in fiscal 2016 compared with fiscal 2015. The decrease was primarily due to a \$3.8 million decrease in personnel and related expenses, a \$6.5 million reduction in professional fees primarily associated with accounting, IT, legal, and marketing consulting services, a \$1.4 million decrease in sales commission and incentive compensation, and a \$0.4 million decrease in share-based compensation expenses. The decreases were partially offset by a \$1.9 million increase in professional fees primarily associated with process improvements, and a \$0.6 million increase in bad debt expenses. We will continue to seek ways to improve our operating efficiency in fiscal 2017.

Our selling and administrative expenses decreased \$12.8 million, or 14.4%, in fiscal 2015 compared with fiscal 2014. The decrease was due primarily to a \$7.1 million decrease in personnel and related expenses, a \$1.8 million decrease in IT consulting expenses as result of the completion of our ERP system implementation, a \$1.7 million reduction in travel expenses, a \$3.6 million decrease in sales commission and incentive compensation, and a \$1.0 million decrease in share-based compensation expenses resulting from employee terminations and full vesting of prior stock awards. The decreases were partially offset by a \$3.4 million increase in professional fees.

Restructuring Charges

During the fourth quarter of fiscal 2016, we initiated a restructuring plan (the “Fiscal 2016-2017 Plan”) to streamline our operations and align expense with current revenue levels. Activities under the Fiscal 2016-2017 Plan primarily include reductions in force in marketing, selling and general and administrative functions across the Company.

During the third quarter of fiscal 2015, with the intent to bring our operational cost structure in line with the changing dynamics of the microwave radio and telecommunications markets, we initiated a restructuring plan (“the Fiscal 2015-2016 Plan”) to lower fixed overhead costs and operating expenses and to preserve cash flow. Activities under the Fiscal 2015-2016 Plan primarily include reductions in force across the Company, but primarily in operations outside the United States.

During the third quarter of fiscal 2014, in line with the decrease in revenue that we experienced and our reduced forecast for the immediate future, we initiated a restructuring plan (“the Fiscal 2014-2015 Plan”) to reduce our operating costs, primarily in North America, Europe and Asia. Activities under the Fiscal 2014-2015 Plan primarily include reductions in force and additional facility downsizing of our Santa Clara, California headquarters.

During the fourth quarter of fiscal 2013, we initiated a restructuring plan (the “Fiscal 2013-2014 Plan”) that was intended to reduce our operating expenses primarily in North America, Europe and Asia. Activities under the Fiscal 2013-2014 Plan included reductions in force and the downsizing of our Santa Clara, California headquarters and certain international field offices.

Our restructuring charges by plan for fiscal 2016, 2015 and 2014 are summarized in the table below:

(In thousands, except percentages)	Fiscal Year			\$ Change		% Change	
	2016	2015	2014	2016/2015	2015/2014	2016/2015	2015/2014
Fiscal 2016-2017 Plan	\$ 2,210	\$ —	\$ —	\$ 2,210	\$ —	N/A	N/A
Fiscal 2015-2016 Plan	282	3,503	—	(3,221)	3,503	(91.9)%	N/A
Fiscal 2014-2015 Plan	77	1,277	5,852	(1,200)	(4,575)	(94.0)%	(78.2)%
Fiscal 2013-2014 Plan	(114)	87	5,407	(201)	(5,320)	(231.0)%	(98.4)%
Fiscal 2011 Plan	—	—	(61)	—	61	N/A	(100.0)%
Total	\$ 2,455	\$ 4,867	\$ 11,198	\$ (2,412)	\$ (6,331)	(49.6)%	(56.5)%

Our restructuring expenses consisted primarily of severance and related benefit charges, facilities costs related to obligations under non-cancelable leases for facilities that we ceased to use, and lease termination charges. During June 2016, we entered into a lease termination agreement for our current headquarters lease in Santa Clara, California. We ceased using parts of the building under the Fiscal 2014-2015 Plan and under the Fiscal 2013-2014 Plan, and recognized lease impairment liabilities in fiscal 2015 and 2014, respectively.

Restructuring charges for fiscal 2016 included \$2.5 million employee severance and benefits costs primarily related to the Fiscal 2016-2017 Plan and the Fiscal 2015-2016 Plan, a \$1.9 million lease termination payable, offset by a \$1.2 million deferred rent liability write-off and a net decrease of \$0.7 million lease impairment liabilities both resulted from the termination of our Santa Clara headquarters building. Restructuring charges for fiscal 2015 included a \$2.9 million employee termination charge primarily related to the Fiscal 2015-2016 Plan, a \$1.4 million facility charge related to ceasing to use portion of our Santa Clara headquarters building and a \$0.6 million Slovenia government fund penalty charge related to the workforce reduction. Restructuring charges for fiscal 2014 included a \$4.8 million facilities charge primarily related to ceasing to use a portion of our Santa Clara headquarters building and a \$6.4 million employee termination charge related to our Fiscal 2014-2015 Plan and Fiscal 2013-2014 Plan.

We intend to substantially complete the remaining restructuring activities under all Plans by the end of fiscal 2017.

Interest Income, Interest Expense and Other Expense

(In thousands)	Fiscal Year		
	2016	2015	2014
Interest income	\$ 252	\$ 360	\$ 480
Interest expense	(104)	(388)	(389)
Other expense	(1,245)	—	—

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

Interest expense was primarily related to interest associated with borrowings and term loans under the Silicon Valley Bank (“SVB”) Credit Facility and discounts on customer letters of credit.

Other expense related to the foreign exchange loss on a dividend declared by our Nigeria entity (a partnership for U.S. tax purpose) to Aviat U.S. entity which was caused by a significant devaluation of the Nigerian Naira in June 2016.

Income Taxes

(In thousands, except percentages)	Fiscal Year			\$ Change	
	2016	2015	2014	2016/2015	2015/2014
Loss from continuing operations before income taxes	\$ (28,543)	\$ (25,958)	\$ (50,553)	\$ (2,585)	\$ 24,595
Provision for (benefit from) income taxes	1,635	(1,310)	1,465	2,945	(2,775)
As % of loss from continuing operations before income taxes	(5.7)%	5.0%	(2.9)%		

Our income tax expense (benefit) from continuing operations was \$1.6 million of expense for fiscal 2016 compared to \$1.3 million of benefit for fiscal 2015 and \$1.5 million of expense for fiscal 2014. The difference between our income tax expense (benefit) from continuing operations and income tax expense at the statutory rate of 35% was primarily attributable to losses in tax jurisdictions in which we cannot recognize a tax benefit and increase in foreign withholding taxes. During fiscal 2015, we released approximately \$4.4 million of its deferred tax valuation allowance in jurisdictions where management believed the utilization of deferred tax assets was more likely than not based on the weighting of positive and negative evidence which resulted in an income tax benefit in fiscal 2015.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain.

Income from Discontinued Operations

(In thousands)	Fiscal Year			S Change	
	2016	2015	2014	2016/2015	2015/2014
Income from discontinued operations, net of tax	\$ 541	\$ 94	\$ 918	\$ 447	\$ (824)

Our discontinued operations consisted of the WiMAX business, which was sold to EION Networks, Inc. (“EION”) on September 2, 2011. We completed the business transition with EION in fiscal 2012. The income recognized in fiscal 2015 was primarily due to a \$0.1 million write-off of accrued liabilities due to EION. The income recognized in fiscal 2016 and fiscal 2014 was primarily due to recovery of certain WiMAX customer receivables that were previously written down.

Liquidity, Capital Resources and Financial Strategies

As of July 1, 2016, our total cash and cash equivalents and short-term investments totaled \$30.7 million. Approximately \$18.5 million, or 60.2%, was held by entities domiciled in the United States. The remaining balance of \$12.2 million, or 39.8%, was held by entities outside the United States. In June of 2016, the Nigeria Central Bank allowed the Naira to float freely after being fixed at approximately 197 Naira to one U.S. dollar. This event caused a devaluation in the Naira to approximately 280 Naira to one U.S. dollar and reduced our Nigerian cash balance by approximately \$1.5 million. Of the amount of cash and cash equivalents held by our foreign subsidiaries at July 1, 2016, \$8.2 million was held in jurisdictions where our undistributed earnings are indefinitely reinvested, and if repatriated, would be subject to U.S. taxes.

Operating Activities

Cash used in operating activities is net loss adjusted for certain non-cash items and changes in assets and liabilities. Net cash used in operating activities was \$0.1 million for fiscal 2016, \$9.0 million for fiscal 2015 and \$29.3 million for fiscal 2014.

For fiscal 2016 compared to fiscal 2015, the \$8.8 million decrease in cash used operating activities was due to changes in working capital and adjustments for non-cash items offset by a higher net loss. The adjustments for non-cash items were higher than fiscal 2015 due primarily to deferred income taxes, and inventory and customer service inventory write-downs, partially offset by lower depreciation and amortization of property, plant and equipment, amortization of identifiable intangible assets and share-based compensation.

Changes in assets and liabilities for fiscal 2016 compared to fiscal 2015 included a decrease in accounts receivable, unbilled costs, accounts payable, advance payments and unearned income and accrued expenses. These decreases were offset by an increase in inventories and other assets and liabilities. In addition, we used \$3.3 million in cash during fiscal 2016 on expenses related to restructuring liabilities. Our accounts receivable and unbilled costs fluctuate from period to period depending on the amount and timing of billing activity and cash collections. The change in accounts payable and accrued expenses were due to timing of additional liabilities and payments in general. The change in advance payments and unearned income were due to timing of payment from customers and revenue recognition. Inventory balance fluctuates depending on demand.

For fiscal 2015 compared to fiscal 2014, the \$20.3 million decrease in cash used in operating activities was due to lower net loss and adjustment for non-cash items, offset by changes in working capital.

Investing Activities

Investing cash flows consist primarily of capital expenditures. Net cash used in investing activities was \$1.8 million for fiscal year 2016, \$3.7 million for fiscal 2015 and \$9.4 million for fiscal 2014.

For fiscal 2017, we expect to spend approximately \$3.0 million for capital expenditures, primarily on equipment for development and manufacturing of new products and to support customer managed services.

Financing Activities

Financing cash flows consist primarily of proceeds and repayments of short-term debt and proceeds from sale of share of common stock through employee equity plans. Net cash provided by (used in) financing activities was \$13 thousand for fiscal year 2016, \$2.9 million for fiscal 2015 and \$(2.8) million for fiscal 2014.

As of July 1, 2016, our principal sources of liquidity consisted of the \$30.7 million in cash, cash equivalents and short-term investments, \$4.8 million of available credit under our \$30.0 million credit facility with Silicon Valley Bank (“SVB”) which expires on June 30, 2018, and future collections of receivables from customers. We regularly require letters of credit from some customers and, from time to time, these letters of credit are discounted without recourse shortly after shipment occurs in order to meet immediate liquidity requirements and to reduce our credit and sovereign risk. Historically our primary sources of liquidity have been cash flows from operations and credit facilities.

We believe that our existing cash and cash equivalents, the available line of credit under the SVB Credit Facility (as defined below) and future cash collections from customers will be sufficient to provide for our anticipated requirements for working capital and capital expenditures for at least the next 12 months. There can be no assurance, however, that our business will generate cash flow from operations, we will be in compliance with the quarterly financial covenants contained in the SVB Credit Facility, or that anticipated operational improvements will be achieved. If we are not in compliance with the financial covenants, the availability of our credit facility is not certain or may be diminished. Over the longer term, if we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations that may arise in the future, we may be required to sell assets, reduce capital expenditures, or obtain financing. If we need to obtain additional financing, we cannot be assured that it will be available on favorable terms, or at all. Our ability to make scheduled principal payments or pay interest on or refinance any future indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the microwave communications market and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

Available Credit Facility, Borrowings and Repayment of Debt

On March 28, 2014, we entered into a Second Amended and Restated Loan Agreement with SVB (the “SVB Credit Facility”). The SVB Credit Facility was amended on September 25, 2014, October 30, 2014 and December 2, 2014 to provide for extensions to the deadline for preparing and filing our fiscal 2014 financial statements with the SEC. On February 27, 2015, the SVB Credit Facility was further amended to provide for certain amendments to the financial covenants, borrowing base and an early termination fee if the SVB Credit Facility is terminated prior to its expiration. In March 2016, we amended the SVB Credit Facility to amend financial covenants and to reduce the maximum borrowing capacity from \$40.0 million to \$30.0 million. In June 2016, we amended the SVB Credit Facility to amend the minimum Earnings before Interest, Tax, Depreciation and Amortization (“EBITDA”) covenant; to create a new sub-limit for letters of credit issued under the revolving credit facility of \$12.0 million; to reduce the advance rate applicable to Singapore Borrower’s eligible accounts in the calculation of the borrowing base of the revolving credit facility; to increase the interest rate margins applicable to revolving loans made to Singapore Borrower by 2.00% above the applicable margin; and to extend the facility maturity date to June 30, 2018. The SVB Credit Facility carries an interest rate computed at the daily prime rate as published in the Wall Street Journal plus a spread of 0.50% to 1.50%, with such spread determined based on our adjusted quick ratio. During fiscal 2016, the weighted average interest rate on our outstanding loan was 3.88%. As of July 1, 2016 and July 3, 2015, our outstanding debt balance under the SVB Credit Facility was \$9.0 million in each fiscal year, and the interest rate was 4.00% and 3.75% respectively.

The SVB Credit Facility provides for a committed amount of up to \$30.0 million, with a \$30.0 million sublimit that can be borrowed by our Singapore subsidiary. Borrowings that may be advanced under the SVB Credit Facility at the lesser of \$30.0 million or a borrowing base equal to a specified percentage of the value of eligible accounts receivable and U.S. unbilled accounts of the Company, subject to certain reserves and eligibility criteria. The SVB Credit Facility can also be utilized to issue letters of credit with a \$12.0 million sublimit. If the SVB Credit Facility is terminated by us in certain circumstances prior to its expiration, we are subject to an early termination fee equal to 1% of

the revolving line. As of July 1, 2016, available credit under the SVB Credit Facility was \$4.8 million reflecting the calculated borrowing base of \$20.0 million less existing borrowings of \$9.0 million and outstanding letters of credit of \$6.2 million.

The SVB Credit Facility contains quarterly financial covenants including minimum adjusted quick ratio and minimum profitability (EBITDA) requirements. In the event our adjusted quick ratio falls below a certain level, cash received in our accounts with SVB may be directly applied to reduce outstanding obligations under the SVB Credit Facility. The SVB Credit Facility also imposes certain restrictions on our ability to dispose of assets, permit a change in control, merge or consolidate, make acquisitions, incur indebtedness, grant liens, make investments, make certain restricted payments and enter into transactions with affiliates under certain circumstances. Certain of our assets, including accounts receivable, inventory, and equipment, are pledged as collateral for the SVB Credit Facility. Upon an event of default, outstanding obligations would be immediately due and payable. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default at a per annum rate of interest equal to 2.00% above the applicable interest rate.

As of July 1, 2016, we were in compliance with the quarterly financial covenants contained in the SVB Credit Facility, as amended. However, as a result of uncertainty on our ability to continue to meet the financial covenants in the future and the fact that the SVB Credit Facility contains subjective acceleration clauses that could be triggered by the lender, the \$9.0 million borrowing was classified as a current liability as of July 1, 2016 and July 3, 2015.

Restructuring Payments

We have a liability for restructuring activities totaling \$4.8 million as of July 1, 2016, of which \$3.9 million is classified as current liability and expected to be paid in cash over the next 12 months. We expect to fund these future payments with available cash and cash equivalents and short-term investments.

Contractual Obligations

As of July 1, 2016, cash payments due under our contractual obligations were estimated as follows:

(In thousands)	Obligations Due by Fiscal Year					
	Total	< 1 year	1 - 3 years	3 - 5 years	> 5 years	Other
Borrowings under credit facility	\$ 9,000	\$ 9,000	\$ —	\$ —	\$ —	\$ —
Purchase obligations ⁽¹⁾⁽⁴⁾	21,668	21,316	352	—	—	—
Other purchase obligations ⁽³⁾⁽⁴⁾	2,160	1,334	826	—	—	—
Operating lease commitments ⁽⁴⁾	11,722	4,217	3,548	1,726	2,231	—
Reserve for uncertain tax positions ⁽²⁾	1,414	—	—	—	—	1,414
Total contractual cash obligations	<u>\$ 45,964</u>	<u>\$ 35,867</u>	<u>\$ 4,726</u>	<u>\$ 1,726</u>	<u>\$ 2,231</u>	<u>\$ 1,414</u>

- (1) From time to time in the normal course of business we may enter into purchasing agreements with our suppliers that require us to accept delivery of, and remit full payment for, finished products that we have ordered, finished products that we requested be held as safety stock, and work in process started on our behalf in the event we cancel or terminate the purchasing agreement. Because these agreements do not specify fixed or minimum quantities, do not specify minimum or variable price provisions, and do not specify the approximate timing of the transaction, and we have no present intention to cancel or terminate any of these agreements, we currently do not believe that we have any future liability under these agreements.
- (2) Liabilities for uncertain tax positions of \$1.4 million were included in long-term liabilities in the consolidated 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.
- (3) Contractual obligation related to software licenses.
- (4) These items are not recorded on our consolidated 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 July 1, 2016, we had commercial commitments on outstanding surety bonds and standby letters of credit as follows:

(In thousands)	Expiration of Commitments by Fiscal Year				
	Total	2017	2018	2019	After 2020
Standby letters of credit used for:					
Bids	\$ 4	\$ 4	\$ —	\$ —	\$ —
Performance	6,511	3,777	176	2,538	20
Tax and payment guarantees	303	190	5	—	108
	<u>6,818</u>	<u>3,971</u>	<u>181</u>	<u>2,538</u>	<u>128</u>
Surety bonds used for:					
Bids	8	8	—	—	—
Performance	19,328	8,146	—	11,182	—
Tax and payment guarantees	3,669	3,634	35	—	—
	<u>23,005</u>	<u>11,788</u>	<u>35</u>	<u>11,182</u>	<u>—</u>
Total commercial commitments	<u>\$ 29,823</u>	<u>\$ 15,759</u>	<u>\$ 216</u>	<u>\$ 13,720</u>	<u>\$ 128</u>

As we have not historically had to pay out on any of our performance guarantees, the outstanding commercial commitments have not been recorded in 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 July 1, 2016, 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 restructuring plans or otherwise, some 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 or issue derivatives for trading purposes or make speculative investments in foreign currencies.

We use foreign exchange forward contracts to hedge forecasted foreign currency transactions relating to forecasted sales and purchase transactions. Prior to the fourth quarter of fiscal 2015, these derivatives were designated as cash flow hedges and are carried at fair value. The effective portion of the gain or loss was initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, was subsequently reclassified into the income or expense line item to which the hedged transaction relates. Beginning the fourth quarter of fiscal 2015, we no longer prepared contemporaneous documentation of hedges therefore the foreign exchange hedges no longer qualified as cash flow hedge. The changes in fair value related to the hedges were recorded in income or expenses line items on our statements of operations. We also enter into foreign exchange forward contracts to mitigate the change in fair value of specific non-functional currency assets and liabilities on the balance sheet. All balance sheet hedges are marked to market through earnings every period. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities.

As of July 1, 2016, we had foreign currency forward contracts outstanding with a total notional amount of \$1.7 million consisting of two different currencies. The following is a summary of the gross notional amount of our outstanding contracts grouped by the underlying foreign currency as of July 1, 2016:

Currency	Notional Contract Amount (Local Currency)	Notional Contract Amount (USD)
	(In thousands)	
British Pound	750	\$ 1,005
Euro	600	669
Total of all currency forward contracts		\$ 1,674

Net foreign exchange loss recorded in our consolidated statements of operations during fiscal 2016, 2015 and 2014 was as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
Amount included in costs of revenues	\$ (556)	\$ (3,308)	\$ (772)
Amount included in other expense	(1,245)	—	—
Total foreign exchange loss, net	\$ (1,801)	\$ (3,308)	\$ (772)

A 10% adverse change in currency exchange rates for our foreign currency derivatives held as of July 1, 2016 would have an impact of approximately \$0.2 million on the fair value of such instruments. Certain of our international business was transacted in non-U.S. dollar currency. As discussed above, we utilize foreign currency hedging instruments to minimize the currency risk of international transactions. The impact of translating the assets and liabilities of foreign operations to U.S. dollars is included as a component of stockholders' equity. As of July 1, 2016 and July 3, 2015, the cumulative translation adjustment decreased our stockholders' equity by \$11.2 million and \$8.7 million, respectively.

In June of 2016, the Nigeria Central Bank allowed the Naira to float freely after being fixed at approximately 197 Naira to one U.S. dollar. This event caused a devaluation in the Naira to approximately 280 Naira to one U.S. dollar resulting in the year over year losses in foreign exchange and cumulative translation adjustments for our Nigeria transactions.

During fiscal 2015 the company experienced increased volatility in foreign currency markets, resulting in the increased year over year losses in foreign exchange and cumulative translation adjustments, particularly in countries where there is no available market to hedge the local currency.

Interest Rate Risk

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

Exposure on Cash Equivalents

We had \$30.5 million in total cash and cash equivalents as of July 1, 2016. Cash equivalents totaled \$18.8 million as of July 1, 2016 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 July 1, 2016 was 348 days, and these investments had an average yield of 6.77% 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 2016, we had \$9.0 million of demand borrowings outstanding under our credit facility that incurred interest at the prime rate or prime rate plus a spread of 0.50% to 1.50%, with such spread determined based on our adjusted quick ratio. During fiscal 2016, our weighted average interest rate was 3.88% and we recorded total interest expense of less than \$0.1million 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 and valuation of accounts receivable;
- inventory valuation and provision for excess and obsolete inventory losses;
- impairment of long-lived assets; and
- 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 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 and Valuation of Accounts Receivable

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, commissioning, maintenance and support services and training. Maintenance and support services are generally offered to our customers over a specified period of time and from sales and subsequent renewals of maintenance and support contracts. We recognize the related revenue ratably over the maintenance or service period. Professional services revenue consists of fees we earn related to consulting and educational services. We recognize revenue from professional services as the services are performed or upon written acceptance from customers, if applicable, assuming all other conditions for revenue recognition noted above have been met. Principal customers for our products and services include domestic and international wireless/mobile service providers, original equipment manufacturers, resellers, 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/or customer purchase orders are generally used to determine the existence of an arrangement.
- Delivery has occurred or services have been delivered. 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 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 Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 605-25, *Revenue Recognition — Multiple-Element Arrangements*, 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, the arrangement consideration is allocated among deliverables based on their relative selling price. We generally determine relative selling price using estimated selling price (“ESP”). Revenue from each deliverable is recognized when all requirements are met for that specific deliverable.

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.

The selling price for each element is based upon the following selling price hierarchy: Vendor-specific objective evidence (“VSOE”) if available, third party evidence (“TPE”) if VSOE is not available or ESP if neither VSOE nor TPE are available. Generally, we are not able to determine TPE because our go-to-market strategy differs from that of our peers and our offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. 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 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.

We reserve for estimated product returns as an offset to revenue or deferred revenue based primarily on historical trends. Actual product returns may be different than what was estimated. These factors and unanticipated changes in the economic and industry environment could make actual results differ from our return estimates.

Accounts receivable is presented net of allowance for estimated uncollectible accounts to reflect any loss anticipated on the collection of accounts receivable balances. Unbilled amounts include amounts associated with percentage-of-completion accounting and other earned revenues not currently billable due to contractual provisions. We calculate the allowance for doubtful accounts based on our history of write-offs, level of past due accounts and the economic status of the customers. We regularly review the adequacy of these allowances by considering internal factors such as historical experience, credit quality and age of the receivable balances as well as external factors such as economic conditions that may affect a customer’s ability to pay and their expected default frequency rates, which are published by major third-party credit-rating agencies and are generally updated on a quarterly basis. If a major customer’s creditworthiness deteriorates, actual defaults are higher than our historical experience, or other circumstances arise, then our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which could have an adverse impact on our operating results.

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. The manufacturing of our products is 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. 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 consolidated 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 36 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 Long-Lived Assets

We evaluate 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 judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the opening and closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences may result in an increase or decrease to our tax provision in a subsequent period in which such determination is made.

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, *Income Taxes*. 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

See “Note 1. The Company and Summary of Significant Accounting Policies” in the notes to consolidated financial statements for a full description of recently issued accounting pronouncements, including the respective expected dates of adoption and effects on our consolidated financial position and results of operations.

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.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Aviat Networks, Inc.
Santa Clara, California:

We have audited the accompanying consolidated balance sheets of Aviat Networks, Inc. as of July 1, 2016 and July 3, 2015, and the related consolidated statements of operations, comprehensive loss, equity and cash flows for the years ended July 1, 2016 and July 3, 2015. In connection with our audits of the financial statements, we have also audited the financial statement schedule - Valuation and Qualifying Accounts as of and for the years ended July 1, 2016 and July 3, 2015 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aviat Networks, Inc. as of July 1, 2016 and July 3, 2015 and the results of its operations and its cash flows for the years ended July 1, 2016 and July 3, 2015, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule - Valuation and Qualifying Accounts as of and for the years ended July 1, 2016 and July 3, 2015, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ BDO USA, LLP

San Jose, California
September 8, 2016

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of operations, comprehensive loss, equity and cash flows of Aviat Networks, Inc. and subsidiaries (“the Company”) for the year ended June 27, 2014. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedules based on our audit.

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 audits 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 consolidated financial statements referred to above present fairly, in all material respects, the results of Aviat Networks, Inc. and subsidiaries operations and their cash flows for the year ended June 27, 2014, 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 consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Santa Clara, California
December 19, 2014

AVIAT NETWORKS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
	July 1, 2016	July 3, 2015	June 27, 2014
(In thousands, except per share amounts)			
Revenues:			
Revenue from product sales	\$ 167,827	\$ 214,874	\$ 222,628
Revenue from services	100,863	121,004	123,404
Total revenues	<u>268,690</u>	<u>335,878</u>	<u>346,032</u>
Cost of revenues:			
Cost of product sales	128,727	163,890	172,783
Cost of services	78,246	91,298	88,061
Total cost of revenues	<u>206,973</u>	<u>255,188</u>	<u>260,844</u>
Gross margin	<u>61,717</u>	<u>80,690</u>	<u>85,188</u>
Operating expenses:			
Research and development expenses	20,806	25,368	35,478
Selling and administrative expenses	65,902	76,005	88,776
Amortization of identifiable intangible assets	—	380	380
Restructuring charges	2,455	4,867	11,198
Total operating expenses	<u>89,163</u>	<u>106,620</u>	<u>135,832</u>
Operating loss	<u>(27,446)</u>	<u>(25,930)</u>	<u>(50,644)</u>
Interest income	252	360	480
Interest expense	(104)	(388)	(389)
Other expense	(1,245)	—	—
Loss from continuing operations before income taxes	<u>(28,543)</u>	<u>(25,958)</u>	<u>(50,553)</u>
Provision for (benefit from) income taxes	1,635	(1,310)	1,465
Loss from continuing operations	<u>(30,178)</u>	<u>(24,648)</u>	<u>(52,018)</u>
Income from discontinued operations, net of tax	541	94	918
Net loss	<u>(29,637)</u>	<u>(24,554)</u>	<u>(51,100)</u>
Less: Net income attributable to noncontrolling interests, net of tax	270	71	—
Net loss attributable to Aviat Networks	<u>\$ (29,907)</u>	<u>\$ (24,625)</u>	<u>\$ (51,100)</u>
Amount attributable to Aviat Networks			
Net loss from continuing operations, net of tax	\$ (30,448)	\$ (24,719)	\$ (52,018)
Net income from discontinued operations, net of tax	\$ 541	\$ 94	\$ 918
Basic and diluted loss per share attributable to Aviat Networks' common stockholders:			
Continuing operations	\$ (5.81)	\$ (4.77)	\$ (10.13)
Discontinued operations	\$ 0.10	\$ 0.02	\$ 0.18
Net loss	\$ (5.71)	\$ (4.75)	\$ (9.95)
Weighted average shares outstanding, basic and diluted	5,238	5,184	5,136

See accompanying notes to consolidated financial statements

AVIAT NETWORKS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)	Fiscal Year Ended		
	July 1, 2016	July 3, 2015	June 27, 2014
Net loss	\$ (29,637)	\$ (24,554)	\$ (51,100)
Other comprehensive income (loss):			
Cash flow hedges:			
Change in unrealized loss on cash flow hedges	—	(314)	(266)
Reclassification adjustments for (gain) loss included in net loss	(41)	321	162
Net change in unrealized (loss) gain on hedging activities	(41)	7	(104)
Net change in cumulative translation adjustment	(2,488)	(5,672)	470
Other comprehensive (loss) income	(2,529)	(5,665)	366
Comprehensive loss	(32,166)	(30,219)	(50,734)
Comprehensive income attributable to noncontrolling interests, net of tax	270	71	—
Comprehensive loss attributable to Aviat Networks	\$ (32,436)	\$ (30,290)	\$ (50,734)

See accompanying notes to consolidated financial statements

AVIAT NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value amounts)

	July 1, 2016	July 3, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 30,479	\$ 34,735
Short-term investments	222	—
Accounts receivable, net	63,449	83,532
Unbilled costs	5,117	17,289
Inventories	27,293	32,933
Customer service inventories	3,064	6,180
Deferred income taxes	—	1,462
Other current assets	10,790	14,997
Total current assets	140,414	191,128
Property, plant and equipment, net	18,162	24,255
Deferred income taxes	6,068	7,627
Other assets, including restricted cash	1,467	1,705
Total long-term assets	25,697	33,587
TOTAL ASSETS	\$ 166,111	\$ 224,715
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term debt	\$ 9,000	\$ 9,000
Accounts payable	33,217	46,580
Accrued expenses	23,205	27,214
Advance payments and unearned income	30,615	35,894
Deferred income taxes	—	169
Restructuring liabilities	3,910	3,851
Total current liabilities	99,947	122,708
Unearned income	8,387	9,837
Other long-term liabilities	1,409	2,243
Reserve for uncertain tax positions	1,414	1,435
Deferred income taxes	1,497	4,683
Total liabilities	112,654	140,906
Commitments and contingencies (Note 12)		
Equity:		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 300,000,000 shares authorized; 5,261,041 and 5,208,200 shares issued and outstanding as of as of July 1, 2016 and July 3, 2015, respectively	53	52
Additional paid-in-capital	811,601	809,788
Accumulated deficit	(747,381)	(717,474)
Accumulated other comprehensive loss	(11,157)	(8,628)
Total Aviat Networks stockholders' equity	53,116	83,738
Noncontrolling interests	341	71
Total equity	53,457	83,809
TOTAL LIABILITIES AND EQUITY	\$ 166,111	\$ 224,715

See accompanying notes to consolidated financial statements

AVIAT NETWORKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Fiscal Year Ended		
	July 1, 2016	July 3, 2015	June 27, 2014
Operating Activities			
Net loss	\$ (29,637)	\$ (24,554)	\$ (51,100)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of identifiable intangible assets	—	380	380
Depreciation and amortization of property, plant and equipment	6,648	7,242	7,139
Provision for uncollectible receivables	1,532	880	835
Share-based compensation	1,836	2,187	3,421
Deferred tax assets, net	(334)	(4,711)	(337)
Charges for inventory and customer service inventory write-downs	9,868	8,043	7,171
Gain on disposition of WiMAX business	—	(85)	—
Loss (gain) on disposition of property, plant and equipment, net	827	384	(55)
Changes in operating assets and liabilities:			
Accounts receivable	17,023	(8,816)	8,238
Unbilled costs	12,041	6,125	5,117
Inventories	(4,995)	(663)	(7,020)
Customer service inventories	2,419	2,285	1,509
Accounts payable	(13,976)	1,562	(2,739)
Accrued expenses	(599)	(4,140)	(6,452)
Advance payments and unearned income	(4,425)	4,666	14,602
Income taxes payable or receivable	2	1,450	(11,940)
Other assets and liabilities	1,644	(1,207)	1,979
Net cash used in operating activities	(126)	(8,972)	(29,252)
Investing Activities			
Payments for acquisition of property, plant and equipment	(1,574)	(3,693)	(9,414)
Purchase of short-term investments	(222)	—	—
Net cash used in investing activities	(1,796)	(3,693)	(9,414)
Financing Activities			
Proceeds from borrowings	36,000	54,000	—
Repayments of borrowings	(36,000)	(51,000)	(2,752)
Proceeds from issuance of common stock under employee stock plans	13	13	98
Payments on capital lease obligations	—	(140)	(144)
Net cash provided by (used in) financing activities	13	2,873	(2,798)
Effect of exchange rate changes on cash and cash equivalents	(2,347)	(4,246)	254
Net decrease in cash and cash equivalents	(4,256)	(14,038)	(41,210)
Cash and cash equivalents, beginning of year	34,735	48,773	89,983
Cash and cash equivalents, end of year	\$ 30,479	\$ 34,735	\$ 48,773
Non-cash investing activities			
Reclassification of property, plant and equipment to inventory	\$ 1,094	\$ —	\$ —
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 111	\$ 387	\$ 389
Cash paid for income taxes	\$ 1,964	\$ 2,042	\$ 14,727

See accompanying notes to consolidated financial statements

AVIAT NETWORKS, INC.
CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except share amounts)	Aviat Networks Stockholders' Equity							
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Aviat Networks Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	\$ Amount						
Balance as of June 28, 2013	5,104,374	\$ 51	\$ 804,069	\$ (641,749)	\$ (3,329)	\$ 159,042	\$ —	\$ 159,042
Net loss				(51,100)		(51,100)		(51,100)
Other comprehensive income, net of tax					366	366		366
Issuance of common stock under employee stock plans	80,478	1	98			99		99
Share-based compensation			3,421			3,421		3,421
Balance as of June 27, 2014	5,184,852	52	807,588	(692,849)	(2,963)	111,828	—	111,828
Net (loss) income				(24,625)		(24,625)	71	(24,554)
Other comprehensive loss, net of tax					(5,665)	(5,665)		(5,665)
Issuance of common stock under employee stock plans	23,348		13			13		13
Share-based compensation			2,187			2,187		2,187
Balance as of July 3, 2015	5,208,200	52	809,788	(717,474)	(8,628)	83,738	71	83,809
Net (loss) income				(29,907)		(29,907)	270	(29,637)
Other comprehensive loss, net of tax					(2,529)	(2,529)		(2,529)
Issuance of common stock under employee stock plans	54,498	1	12			13		13
Fractional shares buyback and other	(1,657)		(35)			(35)		(35)
Share-based compensation			1,836			1,836		1,836
Balance as of July 1, 2016	5,261,041	\$ 53	\$ 811,601	\$ (747,381)	\$ (11,157)	\$ 53,116	\$ 341	\$ 53,457

See accompanying notes to consolidated financial statements

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.

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. ("the Company", "Aviat Networks," "Aviat", "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 June 30. This was July 1 for fiscal 2016, July 3 for fiscal 2015 and June 27 for fiscal 2014. Fiscal years 2016 and 2014 presented each included 52 weeks, and fiscal year 2015 included 53 weeks. In these notes to consolidated financial statements, we refer to our fiscal years as "fiscal 2016", "fiscal 2015" and "fiscal 2014."

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 uncollectible receivables, inventory valuation, valuation allowances for deferred tax assets, uncertainties in income taxes, restructuring obligations, product warranty obligations, share-based awards, contingencies, recoverability of long-lived assets and useful lives of property, plant and equipment.

Reclassifications

During the first quarter of fiscal 2016, we recorded a \$1.2 million reclassification to increase long term unearned income and decrease current advance payments and unearned income as of July 3, 2015. This reclassification had no impact on our total assets, total liabilities, results of operations or cash flows.

During the second quarter of fiscal 2016, we recorded a \$4.7 million reclassification to decrease both accounts receivable and current unearned income in our consolidated balance sheet as of July 3, 2015. This reclassification had no impact on our results of operations. In our consolidated statements of cash flow, the reclassification increased changes in accounts receivable and decreased changes in advance payments and unearned income by \$4.7 million; however, the net cash used in operating activities was not impacted by this reclassification. This reclassification was immaterial to the previously issued financial statements; therefore, we revised our consolidated balance sheet for comparative purposes.

Reverse Stock Split

On June 14, 2016, we effected a reverse stock split of all of the outstanding shares of our common stock at a ratio of 1-for-12 (“Reverse Stock Split”). The authorized shares of 300 million and par value per share of the common stock at \$0.01 per share remain unchanged after the reverse stock split. All share and per-share data in our consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect this reverse stock split.

To reflect the reverse stock split on shareholders' equity, we reclassified an amount equal to the par value of the reduced shares from the common stock par value account to the additional paid in capital account, resulting in no net impact to shareholders' equity on our consolidated balance sheets.

Cash, Cash Equivalents and 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 equivalents are carried at amortized cost, which approximates fair value due to the short-term nature of these investments. 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.

We may 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 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 July 1, 2016 and July 3, 2015, all of our high-quality marketable debt securities were invested in prime money market funds and were classified as cash equivalents except for \$0.2 million in short-term investments.

Cash and cash equivalents that are restricted as to withdrawal or usage under the terms of contractual agreements are recorded as restricted cash. At July 1, 2016, restricted cash included cash balances in our disability insurance voluntary plan account that cannot be used by us for any operating purposes other than to pay benefits to the insured employees and was recorded in other assets in our consolidated balance sheets and the corresponding liabilities were included in other long-term liabilities in our consolidated balance sheets. In addition, there was \$0.6 million of restricted cash in one of our Africa subsidiaries related to a severance amount paid to a former employee in July 2016. We accrued the severance in restructuring liabilities as of July 1, 2016.

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.

Accounts receivable is presented net of 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 the 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 and, from time to time, we discount these letters of credit issued by customers through various financial institutions. The discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements. Under these arrangements, collection risk is fully transferred to the financial institutions. We record the financing charges on discounting these letters of credit as interest expense.

During fiscal 2016, 2015 and 2014, we had one international customer in Africa, Mobile Telephone Networks Group (“MTN Group”) that accounted for 18%, 14% and 17%, respectively, of our total revenue. As of July 1, 2016 and July 3, 2015, MTN Group accounted for approximately 22% and 10%, respectively, of our accounts receivable. As of July 1, 2016, Motorola also accounted for 11% of our accounts receivable. No other customers accounted for more than 10% of our revenue or accounts receivable for the years presented. The loss of any existing customer or a significant reduction in the level of sales to any existing customer could result in declines in our revenue.

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 allowances for collection losses, but historically have not experienced any significant losses related to any particular geographic area. 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 third parties to manufacture our products and we purchase raw materials from third-party vendors. We outsourced our manufacturing services to two independent manufacturers. In addition, we purchase certain strategic component inventory which is consigned to our third-party manufacturers. Other components included in our products are sourced from various suppliers and are principally industry standard parts and components that are available from multiple vendors. The inability of a contract manufacturer or supplier to fulfill our supply requirements or changes in their financial or business condition could disrupt our ability to supply quality products to our customers, and thereby may have a material adverse effect on our business and operating results.

We have entered into agreements relating to our foreign currency contracts with Silicon Valley Bank, a multinational financial institution. 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 first-in-first-out 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.

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 36 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.

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, re-engineering, training and application maintenance.

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:

Buildings	40 years
Leasehold improvements	2 to 10 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 Long-Lived Assets

We evaluate 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.

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 three years, depending on the terms.

Many of our products are manufactured to customer specifications and their acceptance is based on meeting those specifications. Factors that affect our warranty liabilities include the number of product units subject to warranty protection, 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 liabilities as necessary.

Noncontrolling interests

A noncontrolling interest represents the equity interest in a subsidiary that is not attributable, either directly or indirectly, to Aviat Networks and is reported as our equity, separately from our controlling interests. The noncontrolling interests relate to our ownership interest in a subsidiary company in South Africa with a local partner, where we are the majority owner at 51%. Revenues, expenses, gains, losses, net loss and other comprehensive income (loss) are reported in the consolidated financial statements at the consolidated amounts, which include the amounts attributable to both the controlling and noncontrolling interests.

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 United States ("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 included in accumulated other comprehensive loss.

Gains and losses resulting from foreign exchange transactions and revaluation of monetary assets and liabilities in non-functional currencies are included in either cost of product sales and services or other expense in the accompanying consolidated statements of operations, based on the nature of the transactions. Net foreign exchange loss recorded in our consolidated statements of operations during fiscal 2016, 2015 and 2014 was as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
Amount included in costs of revenues	\$ (556)	\$ (3,308)	\$ (772)
Amount included in other expense	(1,245)	—	—
Total foreign exchange loss, net	\$ (1,801)	\$ (3,308)	\$ (772)

Retirement Benefits

As of July 1, 2016, 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 halted making matching contributions to the U.S. plan from the second quarter of fiscal 2014 through the end of fiscal 2015. We resumed making contributions to the plans in fiscal 2016.

Contributions to retirement plans are expensed as incurred. Retirement plan expense amounted to \$2.0 million, \$1.7 million and \$2.5 million in fiscal 2016, 2015 and 2014, 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, commissioning, maintenance and support services and training. Principal customers for our products and services include domestic and international wireless/mobile service providers, original equipment manufacturers, resellers, 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. Maintenance and support services are generally offered to our customers over a specified period of time and from sales and subsequent renewals of maintenance and support contracts. We recognize the related revenue ratably over the maintenance or service period. Professional services revenue consists of fees we earn related to consulting and educational services. We generally recognize revenue from professional services as the services are performed or upon written acceptance from customers, if applicable, assuming all other conditions for revenue recognition noted above have been met.

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/or customer purchase orders are generally used to determine the existence of an arrangement.
- Delivery has occurred or services have been delivered. 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, the accounting principles establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence ("VSOE"), (ii) third-party evidence of selling price ("TPE") and (iii) best estimate of the selling price ("ESP"). Generally, we are not able to determine TPE because our go-to-market strategy differs from that of our peers and our offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. When we are unable to establish a selling price using VSOE or TPE, we use ESP to allocate the arrangement fees to the deliverables. Revenue allocated to each element is then recognized when the other revenue recognition criteria are met for each element. 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.

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.

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. 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. We establish billing terms at the time project deliverables and milestones are agreed. Revenues recognized in excess of the amounts invoiced to clients are classified as unbilled costs in our consolidated balance sheets.

We reserve for estimated product returns as an offset to revenue or deferred revenue based primarily on historical trends. Actual product returns may be different than what was estimated. These factors and unanticipated changes in the economic and industry environment could make actual results differ from our return estimates.

We also consider whether contracts should be 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; and 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.

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 amounts incurred for 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 they are also included in revenue that we bill our customers.

Advertising Costs

We expense all advertising costs as incurred. Advertising costs were immaterial during fiscal 2016, 2015 and 2014.

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.

Research and Development Costs

Our 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.

Share-Based Compensation

We have issued stock options, restricted stock and performance shares under our 2007 Stock Equity Plan. 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 stock option 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. The fair value of each market-based stock unit with market condition was estimated using a Monte-Carlo simulation model.

We generally recognize compensation cost for share-based payment awards on a straight-line basis over the requisite service period. For an award that have a graded vesting schedule, compensation expense is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. For awards with a performance condition vesting feature, we recognize share-based compensation costs for the performance awards when achievement of the performance conditions is considered probable. Any previously recognized compensation cost would be reversed if the performance condition is not satisfied or if it is not probable that the performance conditions will be achieved. For awards with market condition vesting feature, we recognize share-based compensation costs over the period the requisite service is rendered, regardless of when, if ever, the market condition is satisfied.

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.

Restructuring Charges

Our restructuring charges represent expenses incurred in connection with certain cost reduction programs that we have implemented, and consisted of the costs of employee termination costs, lease and other contract termination charges and other costs of exiting activities or geographies. A liability for costs associated with an exit or disposal activity is measured at its fair value when the liability is incurred. Expenses for one-time termination benefits are recognized 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. We recognize severance benefits provided as part of an ongoing benefit arrangement when the payment is probable and the amounts can be reasonably estimated. Liabilities related to termination of an operating lease or contract are measured and recognized at fair value when the contract does not have any future economic benefit to the entity and the fair value of the liability is determined based on the present value of the remaining lease obligations, adjusted for the effects of deferred items recognized under the lease, and reduced by estimated sublease rentals that could be reasonably obtained for the property. The assumptions in determining such estimates include anticipated timing of sublease rentals and estimates of sublease rental receipts and related costs based on market conditions. We expense all other costs related to an exit or disposal activity as incurred.

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 as well as operating loss and tax credit carry forwards. 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 as well as operating loss and tax credit carry forwards. 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 taxes 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.

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.

Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15 *Statement of Cash Flows, Clarification of Certain Cash Receipts and Cash Payments*, which provides guidance on the presentation and classification of eight specific cash flow issues. Those issues are cash payment for debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instrument or other debt instrument with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; cash received from settlement of corporate-owned life

insurance policies; distribution received from equity method investees; beneficial interest in securitization transactions; and classification of cash receipts and payments that have aspect of more than one class of cash flows. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017 with early adoption permitted. We will be evaluating the effect of the adoption of the standard will have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09 (ASC Topic 606) *Revenue from Contracts with Customers*, which will supersede nearly all existing revenue recognition guidance under GAAP. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and assets recognized from costs incurred to obtain or fulfill a contract will also be required. The FASB subsequently issued an update to this standard in August 2015, ASU 2015-14 (ASC Topic 606) *Revenue from Contracts with Customers, Deferral of the Effective Date*, which provides deferral of the effective date by one year. The standard is now effective for us beginning in our fiscal 2019 and allows for either full retrospective or modified retrospective adoption. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016 and including interim reporting periods within such reporting period.

The FASB has since issued additional updates of its new standard on revenue recognition issued in May 2014. In March 2016, an amendment was issued to clarify the implementation guidance on principal versus agent consideration. ASU 2016-08 (ASC Topic 606) *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* requires entities to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation. In April 2016, ASU 2016-10 (ASC Topic 606) *Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing* was issued to clarify the identification of performance obligations and the licensing implementation guidance in the initial standard. ASU 2016-12 (ASC Topic 606) *Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients* was issued in May 2016 related to its guidance on assessing collectability, presentation of sales tax, noncash consideration, and completed contracts and contract modification at transition, which reduce the potential for diversity in practice, and the cost and complexity of application at transition and on an ongoing basis. We are evaluating the effects of the new guidance and has not yet selected a transition method nor has it determined the potential effects of adoption on its consolidated financial statements.

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

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

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. The guidance also changes the accounting for investments without a readily determinable fair value and that do not qualify for the practical expedient to estimate fair value. A policy election can be made for these investments whereby estimated fair value may be measured at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments. This ASU is effective for fiscal years beginning after December 15, 2017. We are currently evaluating the impact this guidance will have on our consolidated financial statements and it will become effective for us at the beginning of our first quarter of fiscal 2019.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes*, which amends the existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. The amendments are effective for financial statements issued for the annual periods beginning after December 15, 2016 and interim periods within those annual periods, and may be applied either prospectively or retrospectively. Early adoption is permitted. We have early adopted this accounting guidance on a prospective basis during the fourth quarter of fiscal 2016. Prior periods are therefore not adjusted.

In July 2015, the FASB issued ASU No. 2015-11 (Subtopic 330), *Simplifying the Measurement of Inventory*, which provides guidance to companies who account for inventory using either the first-in, first-out (“FIFO”) or average cost methods. The guidance states that companies should measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the effect of the adoption of the standard will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest* (Subtopic 835-30), *Simplifying the Presentation of Debt Issuance Costs*, which provides guidance on the balance sheet presentation for debt issuance costs and debt discounts and debt premiums. To simplify the presentation of debt issuance costs, the standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for us beginning in our fiscal year 2017. We are currently evaluating the effect of the adoption of the standard will have on our consolidated financial statements and related disclosures.

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern*, which provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern. This standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods during those annual periods. Early application is permitted. We have early adopted this accounting guidance during the fourth quarter of fiscal 2016 and it has no financial impact on our consolidated financial statements and related disclosures.

Note 2. Accumulated Other Comprehensive Loss

The changes in components of our accumulated other comprehensive loss during fiscal 2016, 2015 and 2014 were as follows:

(In thousands)	Foreign Currency Translation Adjustment ("CTA")	Hedging Derivatives	Total Accumulated Other Comprehensive Income (Loss)
Balance as of June 28, 2013	\$ (3,467)	\$ 138	\$ (3,329)
Other comprehensive income (loss) before reclassification	470	(266)	204
Less: reclassification for amounts included in net loss	—	162	162
Balance as of June 27, 2014	(2,997)	34	(2,963)
Other comprehensive loss before reclassification	(5,672)	(314)	(5,986)
Less: reclassification for amounts included in net loss	—	321	321
Balance as of July 3, 2015	(8,669)	41	(8,628)
Other comprehensive loss before reclassification	(2,488)	—	(2,488)
Less: reclassification for amounts included in net loss	—	(41)	(41)
Balance as of July 1, 2016	\$ (11,157)	\$ —	\$ (11,157)

No income tax benefits were allocated to the other comprehensive loss in fiscal 2016, 2015 and 2014.

In fiscal 2016, 2015 and 2014, the realized gain or loss on cash flow hedges were reclassified out of accumulated other comprehensive loss into the following line item locations in our consolidated statements of operations:

(In thousands)	Fiscal Year		
	2016	2015	2014
Reclassification adjustment for gain (loss) on cash flow hedges included in:			
Revenues	\$ —	\$ (378)	\$ (163)
Cost of revenues	41	57	1
	<u>\$ 41</u>	<u>\$ (321)</u>	<u>\$ (162)</u>

Beginning the fourth quarter of fiscal 2015, we no longer prepared contemporaneous documentation of hedges therefore the foreign exchange hedges no longer qualified as cash flow hedge. The changes in fair value related to the hedges were insignificant for fiscal 2015 and were recorded in income or expense line item on our statements of operations to which the hedged transaction related.

Note 3. Net Loss per Share of Common Stock

We compute net loss per share attributable to Aviat Networks' common stockholders using the two-class method. Basic net loss per share is computed using the weighted average number of common shares and participating securities outstanding during the period. Our unvested restricted shares 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 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 2016, 2015 and 2014, the effect of outstanding stock options, restricted stocks and units and performance shares and units were anti-dilutive and therefore were excluded from the diluted net loss per share calculations. The potential shares of common stock that were excluded from the diluted net loss per share calculations, as adjusted for the Reverse Stock Split, is as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
Stock options	538	613	621
Restricted stocks and units and performance shares and units	258	42	51
Total potential shares of common stock excluded	<u>796</u>	<u>655</u>	<u>672</u>

Note 4. Balance Sheet Components

Accounts Receivable, net

Our net accounts receivable is summarized below:

(In thousands)	July 1, 2016	July 3, 2015
Accounts receivable	\$ 71,416	\$ 90,173
Less: allowances for collection losses	(7,967)	(6,641)
	<u>\$ 63,449</u>	<u>\$ 83,532</u>

Inventories

Our inventories are summarized below:

(In thousands)	July 1, 2016	July 3, 2015
Finished products	\$ 20,044	\$ 21,125
Work in process	5,104	3,775
Raw materials and supplies	2,145	8,033
Total inventories	\$ 27,293	\$ 32,933
Deferred cost of revenue included within finished goods	\$ 5,984	\$ 2,214
Consigned inventories included within raw materials	\$ 2,035	\$ 6,760

During fiscal 2016, 2015 and 2014, we recorded charges to adjust our inventory and customer service inventory due to excess and obsolete inventory resulting from lower sales forecast, product transitioning or discontinuance. Such charges incurred during fiscal 2016, 2015 and 2014 were classified in cost of product sales as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
Excess and obsolete inventory charges	\$ 9,175	\$ 6,291	\$ 3,955
Customer service inventory write-downs	693	1,752	3,216
	\$ 9,868	\$ 8,043	\$ 7,171
As % of revenue	3.7%	2.4%	2.1%

Property, Plant and Equipment, net

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

(In thousands)	July 1, 2016	July 3, 2015
Land	\$ 710	\$ 710
Buildings and leasehold improvements	11,714	9,727
Software	14,620	13,565
Machinery and equipment	42,960	45,197
	70,004	69,199
Less accumulated depreciation and amortization	(51,842)	(44,944)
	\$ 18,162	\$ 24,255

Depreciation and amortization expense related to property, plant and equipment, including amortization of internal use software, was \$6.6 million, \$7.2 million and \$7.1 million, respectively, in fiscal 2016, 2015 and 2014.

Accrued Expenses

Our accrued expenses are summarized below:

(In thousands)	July 1, 2016	July 3, 2015
Accrued compensation and benefits	\$ 7,161	\$ 7,528
Accrued commissions	3,551	4,380
Accrued warranties	3,944	4,221
Other	8,549	11,085
	\$ 23,205	\$ 27,214

We accrue for the estimated cost to repair or replace products under warranty. Changes in our warranty liability, which is included as a component of accrued expenses in the consolidated balance sheets, during fiscal 2016 and 2015 were as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
Balance as of the beginning of the fiscal year	\$ 4,221	\$ 3,777	\$ 3,267
Warranty provision recorded during the period	3,462	5,595	5,234
Consumption during the period	(3,739)	(5,151)	(4,724)
Balance as of the end of the period	\$ 3,944	\$ 4,221	\$ 3,777

Advanced payments and Unearned Income

Our advanced payments and unearned income are summarized below:

(In thousands)	July 1, 2016	July 3, 2015
Advanced payments	\$ 12,124	\$ 9,529
Unearned income	18,491	26,365
	\$ 30,615	\$ 35,894

Note 5. Fair Value Measurements of Assets and Liabilities

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

- Level 1 — Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2 — Observable market-based inputs or observable inputs that are corroborated by market data; and
- Level 3 — Unobservable inputs reflecting our own assumptions.

The carrying amounts, estimated fair values and valuation input levels of our assets and liabilities that are measured at fair value on a recurring basis as of July 1, 2016 and July 3, 2015 were as follows:

(In thousands)	July 1, 2016		July 3, 2015		Valuation Inputs
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Assets:					
Cash and cash equivalents:					
Bank certificates of deposit	\$ 11	\$ 11	\$ 598	\$ 598	Level 2
Money market funds	\$ 18,800	\$ 18,800	\$ 12,499	\$ 12,499	Level 1
Short-term investments:					
Bank certificates of deposit	\$ 222	\$ 222	\$ —	\$ —	Level 2
Other current assets:					
Foreign exchange forward contracts	\$ 5	\$ 5	\$ 64	\$ 64	Level 2
Liabilities:					
Other accrued expenses:					
Foreign exchange forward contracts	\$ 9	\$ 9	\$ 46	\$ 46	Level 2

We classify items within Level 1 if quoted prices are available in active markets. Our Level 1 items include shares in money market funds purchased from two major financial institutions. As of July 1, 2016, these money market shares were valued at \$1.00 net asset value per share by these financial institutions.

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

certificates of deposit and foreign exchange forward contracts are classified within Level 2. Foreign currency forward contracts are measured at fair value using observable foreign currency exchange rates. The assets and liabilities related to our foreign currency forward contracts were not material as of July 1, 2016 and July 3, 2015. We did not have any recurring assets whose fair value was measured using significant unobservable inputs.

Our policy is to recognize asset or liability transfers among Level 1, Level 2 and Level 3 as of the actual date of the events or change in circumstances that caused the transfer. During fiscal 2016, 2015 and 2014, we had no transfers between levels of the fair value hierarchy of our assets or liabilities measured at fair value.

Note 6. Credit Facility and Debt

On March 28, 2014, we entered into a Second Amended and Restated Loan Agreement with Silicon Valley Bank (the “SVB Credit Facility”). The SVB Credit Facility was amended on September 25, 2014, October 30, 2014 and December 2, 2014 to provide for extensions to the deadline for preparing and filing our fiscal 2014 financial statements with the SEC. On February 27, 2015, the SVB Credit Facility was further amended to provide for certain amendments to the financial covenants, borrowing base and an early termination fee if the SVB Credit Facility is terminated prior to its expiration. In March 2016, we amended the SVB Credit Facility to amend financial covenants and to reduce the maximum borrowing capacity from \$40.0 million to \$30.0 million. In June 2016, we amended the SVB Credit Facility to amend the minimum EBITDA covenant; to create a new sub-limit for letters of credit issued under the revolving credit facility of \$12.0 million; to reduce the advance rate applicable to Singapore Borrower’s eligible accounts in the calculation of the borrowing base of the revolving credit facility; to increase the interest rate margins applicable to revolving loans made to Singapore Borrower by 2.00% above the applicable margin; and to extend the maturity date to June 30, 2018. The SVB Credit Facility carries an interest rate computed at the daily prime rate as published in the Wall Street Journal plus a spread of 0.50% to 1.50%, with such spread determined based on our adjusted quick ratio. During fiscal 2016, the weighted average interest rate on our outstanding loan was 3.88%. As of July 1, 2016 and July 3, 2015, our outstanding debt balance under the SVB Credit Facility was \$9.0 million in each fiscal year, and the interest rate was 4.00% and 3.75% respectively.

The SVB Credit Facility provides for a committed amount of up to \$30.0 million, with a \$30.0 million sublimit that can be borrowed by our Singapore subsidiary. Borrowings may be advanced under the SVB Credit Facility at the lesser of \$30.0 million or a borrowing base equal to a specified percentage of the value of eligible accounts receivable and U.S. unbilled accounts of the Company, subject to certain reserves and eligibility criteria. The SVB Credit Facility can also be utilized to issue letters of credit with a \$12.0 million sublimit. If the SVB Credit Facility is terminated by us in certain circumstances prior to its expiration, we are subject to an early termination fee equal to 1% of the revolving line. As of July 1, 2016, available credit under the SVB Credit Facility was \$4.8 million reflecting the calculated borrowing base of \$20.0 million less existing borrowings of \$9.0 million and outstanding letters of credit of \$6.2 million.

The SVB Credit Facility contains quarterly financial covenants including minimum adjusted quick ratio and minimum profitability (EBITDA) requirements. In the event our adjusted quick ratio falls below a certain level, cash received in our accounts with SVB may be directly applied to reduce outstanding obligations under the SVB Credit Facility. The SVB Credit Facility also imposes certain restrictions on our ability to dispose of assets, permit a change in control, merge or consolidate, make acquisitions, incur indebtedness, grant liens, make investments, make certain restricted payments and enter into transactions with affiliates under certain circumstances. Certain of our assets, including accounts receivable, inventory, and equipment, are pledged as collateral for the SVB Credit Facility. Upon an event of default, outstanding obligations would be immediately due and payable. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default at a per annum rate of interest equal to 2.00% above the applicable interest rate. As of July 1, 2016, we were in compliance with the quarterly financial covenants contained in the SVB Credit Facility, as amended. However, as a result of uncertainty on our ability to continue to meet the financial covenants in the future and the fact that the SVB Credit Facility contains subjective acceleration clauses that could be triggered by the lender, the \$9.0 million borrowing was classified as a current liability as of July 1, 2016 and July 3, 2015.

We also obtained an uncommitted short-term line of credit of \$0.4 million from a bank in New Zealand to support the operations of our subsidiary located there in fiscal 2015. This line of credit provides for \$0.3 million in short-term advances at various interest rates, all of which was available as of July 1, 2016. The line of credit also provides for the issuance of standby letters of credit and company credit cards, of which \$0.1 million was outstanding as of July 1, 2016. This facility may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Note 7. Restructuring Activities

The following tables summarize our restructuring related activities during fiscal year 2016, 2015 and 2014:

(In thousands)	Severance and Benefits					Total
	Fiscal 2016-2017 Plan	Fiscal 2015-2016 Plan	Fiscal 2014-2015 Plan	Fiscal 2013-2014 Plan	Fiscal 2011 Plan	
Balance as of June 28, 2013	\$ —	\$ —	\$ —	\$ 1,814	\$ 81	\$ 1,895
Charges, net	—	—	5,406	1,032	(28)	6,410
Cash payments	—	—	(4,116)	(2,632)	(53)	(6,801)
Balance as of June 27, 2014	—	—	1,290	214	—	1,504
Charges, net	—	2,862	(29)	(43)	—	2,790
Cash payments	—	(2,212)	(1,261)	(65)	—	(3,538)
Balance as of July 3, 2015	—	650	—	106	—	756
Charges, net	2,210	344	—	(6)	—	2,548
Cash payments	(698)	(637)	—	(32)	—	(1,367)
Balance as of July 1, 2016	<u>\$ 1,512</u>	<u>\$ 357</u>	<u>\$ —</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 1,937</u>

(In thousands)	Facilities and Other					Total
	Fiscal 2015-2016 Plan	Fiscal 2014-2015 Plan	Fiscal 2013-2014 Plan	Fiscal 2011 Plan		
Balance as of June 28, 2013	\$ —	\$ —	\$ 472	\$ 291		\$ 763
Charges, net	—	446	4,375	(33)		4,788
Cash payments	—	(354)	(1,275)	(258)		(1,887)
Balance as of June 27, 2014	—	92	3,572	—		3,664
Charges, net	641	1,306	130	—		2,077
Cash payments	(8)	(608)	(1,371)	—		(1,987)
Balance as of July 3, 2015	633	790	2,331	—		3,754
Charges, net	(62)	77	(108)	—		(93)
Cash payments	(21)	(584)	(1,373)	—		(1,978)
Noncash adjustments	—	299	896	—		1,195
Balance as of July 1, 2016	<u>\$ 550</u>	<u>\$ 582</u>	<u>\$ 1,746</u>	<u>\$ —</u>		<u>\$ 2,878</u>

In June 2016, we entered into a lease termination agreement for our current headquarters lease in Santa Clara, California (“Termination Agreement”). The noncash adjustments in the table above represents a \$1.2 million deferred rent credit write-off to the restructuring expenses. Under the Termination Agreement, the Company will surrender its current headquarters in exchange for a termination fee of \$1.9 million payable over 14 months. The termination fee was included in the restructuring liabilities as of July 1, 2016 under the Fiscal 2014-2015 Plan and the Fiscal 2013-2014 Plan.

As of July 1, 2016, \$3.9 million of the accrual balance was in short-term restructuring liabilities while \$0.9 million was included in other long-term liabilities on the consolidated balance sheets.

Fiscal 2016-2017 Plan

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

Fiscal 2015-2016 Plan

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

Fiscal 2014-2015 Plan

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

Fiscal 2013-2014 Plan

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

Note 8. Stockholders’ Equity

As discussed in Note 1, on June 14, 2016, we effected a 1-for-12 reverse stock split of our common stock. All share and per share data in this note have been retroactively adjusted to reflect this reverse stock split.

Stock Incentive Programs

2007 Stock Equity Plan

As of July 1, 2016, we had one stock incentive plan for our employees and nonemployee directors, the 2007 Stock Equity Plan, as amended and restated effective November 17, 2011 (the “2007 Stock Plan”). The 2007 Stock Plan provides for accelerated vesting of certain share-based awards if there is a change in control of the Company. The 2007 Stock Plan also provides for the issuance of share-based awards in the form of stock options, stock appreciation rights, restricted stock awards and units, and performance share awards and units. We have various incentive programs under the 2007 Stock Plan, including annual and long-term incentive programs (“AIP” or “LTIP”), a global equity program (“GEP”) and product development incentive programs (“PDIP”).

Under the 2007 Stock Plan, option exercise prices are equal to the fair market value on the date the options are granted using our closing stock price. Options may be exercised for a period set at the time of grant, which is generally seven years after the date of grant. Options generally vest in installments on one of four vesting schedules: (1) 25% one year from the grant date and 1/48 each month thereafter over the remaining three-year period; (2) 50% one year from the grant date and 25% each year thereafter over the remaining two-year period; (3) one-third annually over a three-year period from the date of grant; or (4) 25% annually over a four-year period from date of grant. In fiscal 2014, stock options were issued to directors and vested on the day before the annual stockholders’ meeting.

Restricted stock is not transferable until vested and the restrictions lapse upon the achievement of continued employment or service over a specified time period. Restricted stock issued to employees generally vests on one of three vesting schedules: (1) one-third annually over a three-year period from the date of grant (2) 25% annually over a four-year period from date of grant; or (3) in full three years after the grant date. Restricted stock issued to directors annually and generally vests on the day before the annual stockholders’ meeting.

Vesting of performance shares under our AIP, LTIP or GEP is subject to financial performance criteria including revenue, operating income, or cash flow targets for the periods as defined in the programs and continued employment

through the end of the applicable period. Performance shares under our PDIPs are issued to employees related to certain new product development projects and vest upon achievement of the product development milestones as defined in the programs.

For the market-based stock units, the performance criteria are based on multiple target closing prices of the Company's common stock for the fiscal years ending 2016, 2017 and 2018. Once the shares are earned for fiscal years ending 2016 and 2017, they will be vested on the last day of fiscal 2018. For the shares earned for the fiscal year ending 2018, they will be vested on the date that the Compensation Committee certifies achievement of the performance metrics. Vesting of these shares is dependent on continuous employment with us through the date the performance metric is achieved.

Upon the exercise of stock options, vesting of restricted stock awards and units, or vesting of performance share awards and units, we issue new shares of our common stock to our employees. All awards that are canceled prior to vesting or expire unexercised are returned to the approved pool of reserved shares under the 2007 Stock Plan and made available for future grants. Shares of our common stock remaining available for future issuance under the 2007 Stock Plan totaled 710,748 as of July 1, 2016.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan ("ESPP"), employees are entitled to purchase shares of our common stock at a 5% discount from the fair market value at the end of a three-month purchase period. As of July 1, 2016, 62,039 shares were reserved for future issuances under the ESPP. We issued 1,346 shares under the ESPP during fiscal 2016.

Share-Based Compensation

Total compensation expense for share-based awards included in our consolidated statements of operations for fiscal 2016, 2015 and 2014 was as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
<u>By Expense Category:</u>			
Cost of product sales and services	\$ 154	\$ 151	\$ 196
Research and development	110	108	273
Selling and administrative	1,572	1,928	2,952
Total share-based compensation expense	<u>\$ 1,836</u>	<u>\$ 2,187</u>	<u>\$ 3,421</u>
<u>By Types of Award:</u>			
Options	\$ 837	\$ 1,459	\$ 1,909
Restricted stock awards and units	933	688	748
Performance shares and market condition shares	66	40	764
Total share-based compensation expense	<u>\$ 1,836</u>	<u>\$ 2,187</u>	<u>\$ 3,421</u>

Compensation expense for an award with only service conditions is recognized over the requisite service period, which is usually the vesting period of the award. For an award that have a graded vesting schedule, compensation expense is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. The amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date.

Stock Options

A summary of the combined stock option activity under our equity plans during fiscal 2016 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (\\$ in thousands)
Options outstanding as of July 3, 2015	614,232	\$34.61	4.05	\$0
Granted	—	N/A		
Exercised	—	N/A		
Forfeited	(143,308)	\$31.69		
Expired	(22,565)	\$86.16		
Options outstanding as of July 1, 2016	448,359	\$32.95	3.37	\$0
Options exercisable as of July 1, 2016	364,353	\$35.52	3.01	\$0
Options vested and expected to vest as of July 1, 2016	442,063	\$33.17	3.34	\$0

The aggregate intrinsic value represents the total pre-tax intrinsic value or the aggregate difference between the closing price of our common stock on July 1, 2016 of \$8.05 and the exercise price for in-the-money options that would have been received by the optionees if all options had been exercised on July 1, 2016. The options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options. As of July 1, 2016, there was \$0.4 million of total unrecognized compensation expense related to nonvested stock options granted under our 2007 Stock Plan. This expense is expected to be recognized over a weighted-average period of 1.23 years.

Additional information related to our stock options is summarized below:

(In thousands)	Fiscal Year		
	2016	2015	2014
Fair value of options vested	\$ 1,395	\$ 1,990	\$ 2,234

The fair value of each option grant under our 2007 Stock Plan was estimated using the Black-Scholes option pricing model on the date of grant. A summary of the significant weighted average assumptions we used in the Black-Scholes valuation model is as follows:

	Fiscal Year		
	2016	2015	2014
Expected dividends	N/A	—%	—%
Expected volatility	N/A	53.9%	54.1%
Risk-free interest rate	N/A	1.13%	1.26%
Expected term (years)	N/A	4.25	4.43
Weighted average grant date fair value per share granted	N/A	\$ 6.60	\$ 12.72

Expected volatility is based on implied volatility for the expected term of the options from our stock price. The expected term of the options is calculated using the simplified method described in the SEC's Staff Accounting Bulletin Topic 14.D.2. We use the simplified method because we do not have sufficient stock option exercise data and the types of employees that receive share option grants have been significantly changed due to the implementation of our GEP in fiscal 2012, under which we granted share-based awards to employees who are not eligible for the long-term incentive programs. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is zero because we have not historically paid dividends on our common stock and have no intention to pay dividends in the foreseeable future. The following summarizes all of our stock options outstanding and exercisable as of July 1, 2016:

Actual Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$14.88 — \$15.60	87,501	5.50	\$15.35	42,235	\$15.35
\$20.64 — \$26.28	73,297	3.79	\$25.59	59,474	\$25.45
\$27.36 — \$30.72	100,045	2.76	\$28.88	99,948	\$28.88
\$31.20 — \$31.20	74,462	4.19	\$31.20	49,642	\$31.20
\$32.52 — \$72.00	87,137	1.68	\$49.75	87,137	\$49.75
\$77.28 — \$80.76	25,917	0.63	\$77.48	25,917	\$77.48
\$14.88 — \$80.76	<u>448,359</u>	3.37	\$32.95	<u>364,353</u>	\$35.52

Restricted Stock

A summary of the status of our restricted stock as of July 1, 2016 and changes during fiscal 2016 were as follows:

	Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding as of July 3, 2015	79,767	\$13.86
Granted	197,549	\$11.84
Vested and released	(53,094)	\$13.76
Forfeited	(13,624)	\$13.55
Restricted stock outstanding as of July 1, 2016	<u>210,598</u>	\$12.01

The fair value of each restricted stock grant is based on the closing price of our common stock on the date of grant. The total fair value of restricted stock that vested during fiscal 2016, 2015 and 2014 was \$0.7 million, \$0.6 million and \$0.7 million, respectively. As of July 1, 2016, there was \$1.5 million of total unrecognized compensation expense related to nonvested restricted stock units granted under our 2007 Stock Plan. This expense is expected to be recognized over a weighted-average period of 1.92 years.

Market-Based Stock Units

A summary of the status of our market-based stock units as of July 1, 2016 and changes during fiscal 2016 were as follows:

	Shares	Weighted Average Grant Date Fair Value
Market-based stock unit outstanding as of July 3, 2015	—	N/A
Granted	158,766	\$2.56
Forfeited	(9,597)	\$2.56
Market-based stock unit outstanding as of July 1, 2016	<u>149,169</u>	\$2.56

The fair value of each market-based stock unit with market condition was estimated using a Monte-Carlo simulation model. A summary of the significant weighted average assumptions we used in the Monte Carlo simulation model is as follows:

	Fiscal Year		
	2016	2015	2014
Expected Dividends	—%	N/A	N/A
Expected volatility	52.4%	N/A	N/A
Risk-free interest rate	1.21%	N/A	N/A
Weighted average grant date fair value per share granted	\$ 2.56	N/A	N/A

The fair value of the market-based stock units with market condition criteria is expensed over the derived service period for each separate vesting tranche. If the derived service period is rendered, the total fair value of the award at the date of the grant is recognized as compensation expense even if the market condition is not achieved. As of July 1, 2016, there was \$0.2 million of total unrecognized compensation expense related to nonvested market-based stock units granted under our 2007 Stock Plan. This expense is expected to be recognized over a weighted-average period of 2.10 years.

Performance Share Awards

A summary of the status of our performance shares as of July 1, 2016 and changes during fiscal 2016 were as follows:

	Shares	Weighted Average Grant Date Fair Value
Performance shares outstanding as of July 3, 2015	66,901	\$14.98
Forfeited due to target thresholds not achieved	(66,725)	\$14.98
Forfeited due to terminations	(176)	\$14.98
Performance shares outstanding as of July 1, 2016	—	—

The fair value of each performance share was based on the closing price of our common stock on the date of grant and was amortized over its vesting period. We began to recognize share-based compensation costs for the performance shares when achievement of the performance conditions is considered probable. Any previously recognized compensation cost would be reversed if the performance condition is not satisfied or if it is not probable that the performance conditions will be achieved.

No performance shares award vested during fiscal 2016. The total fair value of performance share awards that vested during fiscal 2015 and 2014 was \$0.1 million and \$3.0 million, respectively.

Note 9. Segment and Geographic Information

We operate in one reportable business segment: the design, manufacturing and sale of a range of wireless networking products, solutions and services. We conduct business globally and our sales and support activities are managed on a geographic basis. Our Chief Executive Officer is the Chief Operating Decision Maker (the "CODM"). Our CODM 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 geographic region is not a determining factor in allocating resources and the CODM does not evaluate profitability below the level of the consolidated company.

We report revenue by region and country based on the location where our customers accept delivery of our products and services. Revenue by region for 2016, 2015 and 2014 were as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
North America	\$ 125,482	\$ 153,239	\$ 142,027
Africa and Middle East	82,742	97,112	108,906
Europe and Russia	20,539	35,990	36,043
Latin America and Asia Pacific	39,927	49,537	59,056
Total Revenue	\$ 268,690	\$ 335,878	\$ 346,032

Revenue by country comprising more than 5% of our total revenue for fiscal 2016, 2015 and 2014 were as follows:

(In thousands, except percentages)	Revenue	% of Total Revenue
Fiscal 2016:		
United States	\$ 121,283	45.1%
Nigeria	\$ 28,862	10.7%
Fiscal 2015:		
United States	\$ 151,066	45.0%
Nigeria	\$ 36,459	10.9%
Fiscal 2014:		
United States	\$ 139,234	40.2%
Nigeria	\$ 52,189	15.1%

Our long-lived assets, consisting primarily of property, plant and equipment, by geographic areas based on the physical location of the assets as of July 1, 2016 and July 3, 2015 were as follows:

(In thousands)	July 1, 2016	July 3, 2015
United States	\$ 11,353	\$ 17,581
United Kingdom	2,946	3,094
New Zealand	2,618	1,797
Other countries	1,245	1,783
Total	\$ 18,162	\$ 24,255

Note 10. Divestiture

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. 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. We had received \$0.1 million in total of such contingent payments through June 27, 2014 and do not expect any further payments from EION. In addition, EION is entitled to receive cash payments up to \$2.0 million upon collection of certain WiMAX accounts receivable. As of September 26, 2014, we made \$1.6 million in total of such payments to EION and wrote-off the remaining \$0.4 million balance resulting from the write-downs of the corresponding WiMAX accounts receivable. As of July 1, 2016 and July 3, 2015, our accrued liabilities related to the disposition of WiMAX business were zero.

In the third quarter of fiscal 2011, we began accounting for the WiMAX business as a discontinued operation and, therefore, the operating results of our WiMAX business were included in discontinued operations in our consolidated financial statements for all years presented. The income recognized in fiscal 2015 was primarily due to a \$0.1 million write-off of accrued liabilities due to EION. The income recognized in fiscal 2016 and 2014 was primarily due to the recovery of certain WiMAX customer receivables that was previously written down.

Summary results of operations for the WiMAX business were as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
Income from operations of WiMAX	\$ 652	\$ 30	\$ 1,225
Gain on disposal	—	85	—
Income taxes	(111)	(21)	(307)
Income from discontinued operations, net of tax	\$ 541	\$ 94	\$ 918

Note 11. Income Taxes

Loss from continuing operations before provision for income taxes during fiscal year 2016, 2015 and 2014 is as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
United States	\$ (4,248)	\$ (18,603)	\$ (26,735)
Foreign	(24,295)	(7,355)	(23,818)
Total loss from continuing operations before income taxes	\$ (28,543)	\$ (25,958)	\$ (50,553)

Provision for (benefit from) income taxes from continuing operations for fiscal year 2016, 2015 and 2014 were summarized as follows:

(In thousands)	Fiscal Year		
	2016	2015	2014
Current provision (benefit):			
Federal	\$ 131	\$ —	\$ (125)
Foreign	1,814	3,378	1,932
State and local	24	23	(5)
	1,969	3,401	1,802
Deferred provision (benefit):			
Federal	(468)	(216)	—
Foreign	134	(4,495)	(337)
	(334)	(4,711)	(337)
Total provision for (benefit from) income taxes from continuing operations	\$ 1,635	\$ (1,310)	\$ 1,465

The following table summarizes the significant differences between the U.S. Federal statutory tax rate and our effective tax rate from continuing operations for fiscal year 2016, 2015 and 2014:

	Fiscal Year		
	2016	2015	2014
Statutory U.S. federal tax rate	(35.0)%	(35.0)%	(35.0)%
Valuation allowances	23.1 %	(15.1)%	30.0 %
Foreign non-deductible expenses	0.4 %	(0.3)%	0.9 %
State and local taxes, net of U.S. federal tax benefit	(0.5)%	(1.9)%	(1.3)%
Foreign income taxed at rates less than the U.S. statutory rate	21.1 %	38.5 %	8.5 %
Dividend from foreign subsidiary	(6.2)%	— %	— %
Foreign branch income/withholding taxes	1.0 %	5.2 %	2.0 %
Change in uncertain tax positions	1.5 %	2.4 %	(1.7)%
Other	0.3 %	1.2 %	(0.5)%
Effective tax rate	5.7 %	(5.0)%	2.9 %

The income tax expense (benefit) from continuing operations for fiscal 2016 was \$1.6 million of expense, for fiscal 2015 was \$1.3 million of benefit and for fiscal 2014 was \$1.5 million of expense. The difference between our income tax expense (benefit) from continuing operations and income tax expense at the statutory rate of 35% was primarily attributable to losses in tax jurisdictions in which we cannot recognize a tax benefit and increase in foreign withholding taxes. During fiscal 2015, the Company released approximately \$4.4 million of its deferred tax valuation allowance in jurisdictions where management believed the utilization of deferred tax assets was more likely than not based on the weighting of positive and negative evidence which resulted in an income tax benefit in fiscal 2015.

The components of deferred tax assets and liabilities were as follows:

(In thousands)	July 1, 2016		July 3, 2015	
	Current	Non-Current	Current	Non-Current
Deferred tax assets:				
Inventory	\$ —	\$ 6,652	\$ 7,681	\$ —
Accruals and reserves	—	2,497	4,641	66
Bad debts	—	1,091	1,412	—
Amortization	—	3,148	—	2,589
Stock compensation	—	2,599	—	3,358
Deferred revenue	—	1,759	—	1,906
Unrealized exchange gain/loss	—	3,422	3,648	—
Other	—	6,623	1,123	5,030
Tax credit carryforwards	—	18,016	—	17,876
Tax loss carryforwards	—	167,468	—	154,270
Total deferred tax assets before valuation allowance	—	213,275	18,505	185,095
Valuation allowance	—	(202,824)	(17,043)	(177,468)
Total deferred tax assets	—	10,451	1,462	7,627
Deferred tax liabilities:				
Branch undistributed earnings reserve	—	822	75	1,215
Depreciation	—	4,596	—	3,468
Other	—	462	94	—
Total deferred tax liabilities	—	5,880	169	4,683
Net deferred tax assets	\$ —	\$ 4,571	\$ 1,293	\$ 2,944
As Reported on the Consolidated Balance Sheets				
Deferred income taxes assets	\$ —	\$ 6,068	\$ 1,462	\$ 7,627
Deferred income taxes liabilities	—	1,497	169	4,683
Total net deferred income taxes	\$ —	\$ 4,571	\$ 1,293	\$ 2,944

Consistent with the intent of ASU 2015-17 to simplify the presentation of deferred income taxes, we have early adopted ASU 2015-17 on a prospective basis during the fourth quarter of fiscal year 2016. As a result of this accounting update, our current deferred tax assets were reclassified to non-current. Prior periods were not retrospectively adjusted.

Our valuation allowance related to deferred income taxes, as reflected in our consolidated balance sheet, was \$202.8 million as of July 1, 2016 and \$194.5 million as of July 3, 2015. The increase in valuation allowance in fiscal 2016 was primarily due to the losses in tax jurisdictions in which we cannot recognize tax benefits.

Tax loss and credit carryforwards as of July 1, 2016 have expiration dates ranging between one year and no expiration in certain instances. The amount of U.S. federal tax loss carryforwards as of July 1, 2016 and July 3, 2015 were \$345.3 million and \$328.7 million, respectively, and begin to expire in fiscal 2023. Credit carryforwards as of July 1, 2016 were \$23.8 million, and certain credits will begin to expire in fiscal 2017. The amount of foreign tax loss carryforwards as of July 1, 2016 was \$175.1 million.

United States income taxes have not been provided on basis differences in foreign subsidiaries of \$5.6 million and \$5.4 million, respectively, as of July 1, 2016 and July 3, 2015, because of our intention to reinvest these earnings indefinitely. The residual U.S. tax liability, if such amounts were remitted, would be nominal.

We entered into a tax sharing agreement with Harris effective on January 26, 2007, the date of the acquisition of Stratex. The tax sharing agreement addresses, among other things, the settlement process associated with pre-merger tax liabilities and tax attributes that are attributable to the Microwave Communication Division when it was a division of Harris. There were no settlement payments recorded in fiscal year 2016, 2015, or 2014.

As of July 1, 2016 and July 3, 2015, we had unrecognized tax benefits of \$27.0 million and \$26.9 million, respectively, for various federal, foreign, and state income tax matters. Unrecognized tax benefits decreased by \$0.1

million. Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were \$1.4 million and \$1.4 million, respectively, as of July 1, 2016 and July 3, 2015. These unrecognized tax benefits are presented on the accompanying consolidated balance sheet net of the tax effects of net operating loss carryforwards.

We account for interest and penalties related to unrecognized tax benefits as part of our provision for income taxes. The interest accrued was immaterial as of July 1, 2016 and \$0.1 million as of July 3, 2015. No penalties have been accrued.

Our unrecognized tax benefit activity for fiscal 2016, 2015 and 2014 is as follows:

(In thousands)	Amount
Unrecognized tax benefit as of June 28, 2013	\$ 28,698
Additions for tax positions in prior periods	8,705
Decreases for tax positions in prior periods	(12,055)
Increases related to change of foreign exchange rate	2,861
Unrecognized tax benefit as of June 27, 2014	28,209
Additions for tax positions in prior periods	673
Decreases for tax positions in prior periods	(227)
Decreases related to change of foreign exchange rate	(1,745)
Unrecognized tax benefit as of July 3, 2015	26,910
Additions for tax positions in current periods	397
Additions for tax positions in prior periods	246
Decreases related to change of foreign exchange rate	(515)
Unrecognized tax benefit as of July 1, 2016	\$ 27,038

During the fiscal year 2014, we received an assessment letter from the Inland Revenue Authority of Singapore (“IRAS”) related to deductions claimed in prior years and made a payment of \$13.2 million related to tax years 2007 through 2010, reflecting all of the taxes incrementally assessed by IRAS. Since the initial assessment, we continue to pursue remedies to challenge this assessment. There was no settlement in fiscal year 2016. During the next twelve months, it is reasonably possible that an ultimate settlement will be achieved which would result in our unrecognized tax benefits changing by up to \$14.0 million. During the first quarter of fiscal year 2017, we received an initial refund of \$3.7 million from IRAS. We will continue our discussion with IRAS to resolve the remaining tax positions. We believe that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits.

We have a number of years with open tax audits which vary from jurisdiction to jurisdiction. Our major tax jurisdictions include the U.S., Singapore and Nigeria. The earliest years still open and subject to potential audits for these jurisdictions are as follows: U.S. —2003; Singapore — 2006; Nigeria — 2011, and Ivory Coast — 2013.

Note 12. Commitments and Contingencies

Operating Lease Commitments

We lease office and manufacturing facilities under non-cancelable operating leases expiring at various dates through 2024. We lease approximately 129,000 square feet of office space in Santa Clara, California as our corporate headquarters. On June 8, 2016, we leased a new corporate headquarters in Milpitas, California with a term of 60 months. In the same month, we entered into a lease termination agreement for our current headquarters lease. We expect to complete the move of our corporate headquarters by September 2016. As of July 1, 2016, future minimum lease payments for our Santa Clara headquarters total \$2.7 million.

As of July 1, 2016, our future minimum lease payments under all non-cancelable operating leases with an initial lease term in excess of one year were as follows:

Fiscal Years	Amount	
	(In thousands)	
2017	\$	4,217
2018		2,333
2019		1,215
2020		852
2021		874
Thereafter		2,231
Total	\$	11,722

These commitments do not contain any material rent escalations, rent holidays, contingent rent, rent concessions, leasehold improvement incentives or unusual provisions or conditions. We sublease a portion of our facilities to third parties and total minimum rentals to be received in the future under our non-cancelable subleases were immaterial as of July 1, 2016.

Rental expense for operating leases, including rentals on a month-to-month basis was \$5.1 million, \$6.5 million and \$7.7 million in fiscal 2016, 2015 and 2014, respectively.

Purchase Orders and Other Commitments

From time to time in the normal course of business, we may enter into purchasing agreements with our suppliers that require us to accept delivery of, and remit full payment for, finished products that we have ordered, finished products that we requested be held as safety stock, and work in process started on our behalf in the event we cancel or terminate the purchasing agreement. Because these agreements do not specify fixed or minimum quantities, do not specify minimum or variable price provisions, and do not specify the approximate timing of the transaction, and we have no present intention to cancel or terminate any of these agreements, we currently do not believe that we have any future liability under these agreements. As of July 1, 2016, we had outstanding purchase obligations with our suppliers or contract manufacturers of \$21.7 million. In addition, we had contractual obligations of approximately \$2.2 million associated with software licenses as of July 1, 2016.

Financial Guarantees and Commercial Commitments

Guarantees issued by banks, insurance companies or other financial institutions are contingent commitments issued to guarantee our performance under borrowing arrangements, such as bank overdraft facilities, tax and customs obligations and similar transactions or to ensure our performance under customer or vendor contracts. The terms of the guarantees are generally equal to the remaining term of the related debt or other obligations and are generally limited to two years or less. As of July 1, 2016, we had no guarantees applicable to our debt arrangements.

We have entered into commercial commitments in the normal course of business including surety bonds, standby letters of credit agreements and other arrangements with financial institutions primarily relating to the guarantee of future performance on certain contracts to provide products and services to customers. As of July 1, 2016, we had commercial commitments of \$29.8 million outstanding that were not recorded in our consolidated balance sheets. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid on the performance guarantees.

Indemnifications

Under the terms of substantially all of our license agreements, we have agreed to defend and pay any final judgment against our customers arising from claims against such customers that our software products infringe the intellectual property rights of a third party. As of July 1, 2016, we have not received any notice that any customer is subject to an infringement claim arising from the use of our software products; we have not received any request to defend any customers from infringement claims arising from the use of our software products; and we have not paid any final judgment on behalf of any customer related to an infringement claim arising from the use of our software products. Because the outcome of infringement disputes is related to the specific facts of each case, and given the lack of previous or current indemnification claims, we cannot estimate the maximum amount of potential future payments, if any, related

to our indemnification provisions. As of July 1, 2016, we had not recorded any liabilities related to these indemnifications.

Legal Proceedings

We are subject from time to time to disputes with customers concerning our products and services. In May 2016, we received notification of a claim for \$1.0 million in damages from a customer in Austria alleging that certain of our products were defective. We are continuing to investigate this claim, and at this time an estimate of the reasonably possible loss or range of loss cannot be made. In August 2016, we received a correspondence from a customer in Africa demanding that certain inventory aggregating \$1.0 million be repurchased under the terms of an inventory management agreement that we believe has expired. We are continuing to investigate this demand, and at this time an estimate of the reasonably possible loss or range of loss cannot be made. We believe that we have numerous contractual and legal defenses to these disputes, which are in their early stages, and we intend to dispute them vigorously.

From time to time, we may be involved in various other legal claims and litigation that arise in the normal course of our operations. We are aggressively defending all current litigation matters. Although there can be no assurances and the outcome of these matters is currently not determinable, we currently believe that none of these claims or proceedings are likely to have a material adverse effect on our financial position. We expect to defend each of these disputes vigorously. There are many uncertainties associated with any litigation and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. As a result, our business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from our estimates, if any.

We record accruals for our outstanding legal proceedings, investigations or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. We evaluate, at least on a quarterly basis, developments in legal proceedings, investigations or claims that could affect the amount of any accrual, as well as any developments that would result in a loss contingency to become both probable and reasonably estimable. We have not recorded any accrual for loss contingencies associated with such legal claims or litigation discussed above.

Contingent Liabilities

We record a loss contingency as a charge to operations when (i) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements; and (ii) the amount of the loss can be reasonably estimated. Disclosure in the notes to the financial statements is required for loss contingencies that do not meet both those conditions if there is a reasonable possibility that a loss may have been incurred. Gain contingencies are not recorded until realized. We expense all legal costs incurred to resolve regulatory, legal and tax matters as incurred.

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

Note 13. Quarterly Financial Data (Unaudited)

The following financial information reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Our fiscal quarters end on the Friday nearest the end of the calendar quarter. The third quarter of fiscal year 2015 included 14 weeks and other quarters each included 13 weeks. Summarized quarterly data for fiscal 2016 and 2015 were as follows:

(In thousands, except per share amounts)	Q1 Ended 10/2/2015	Q2 Ended 1/1/2016	Q3 Ended 4/1/2016	Q4 Ended 7/1/2016
Fiscal 2016				
Revenue	\$ 79,555	\$ 70,416	\$ 60,467	\$ 58,252
Gross margin	\$ 21,011	\$ 16,424	\$ 14,413	\$ 9,869
Operating loss	\$ (1,598)	\$ (4,998)	\$ (7,594)	\$ (13,256)
Net loss	\$ (1,154)	\$ (5,534)	\$ (7,808)	\$ (15,141)
Net loss attributable to Aviat Networks	\$ (1,203)	\$ (5,679)	\$ (7,874)	\$ (15,151)
Per share data:				
Basic and diluted net loss per common share ⁽¹⁾	\$ (0.23)	\$ (1.09)	\$ (1.50)	\$ (2.88)

(In thousands, except per share amounts)	Q1 Ended 9/26/2014	Q2 Ended 12/26/2014	Q3 Ended 4/3/2015	Q4 Ended 7/3/2015
Fiscal 2015				
Revenue	\$ 82,441	\$ 90,868	\$ 74,839	\$ 87,730
Gross margin	\$ 22,042	\$ 23,974	\$ 16,046	\$ 18,628
Operating loss	\$ (5,379)	\$ (3,748)	\$ (11,699)	\$ (5,104)
Net loss	\$ (5,466)	\$ (4,549)	\$ (13,167)	\$ (1,372)
Net loss attributable to Aviat Networks	\$ (5,466)	\$ (4,549)	\$ (13,167)	\$ (1,443)
Per share data:				
Basic and diluted net loss per common share ⁽¹⁾	\$ (1.06)	\$ (0.88)	\$ (2.54)	\$ (0.28)

(1) All per share data in this note have been retroactively adjusted for the Reverse Stock Split discussed in Note 1.

The following tables summarize certain charges, expenses and loss (income) from discontinued operations included in our results of operations for each of the fiscal quarters presented:

(In thousands)	Q1 Ended 10/2/2015	Q2 Ended 1/1/2016	Q3 Ended 4/1/2016	Q4 Ended 7/1/2016
Fiscal 2016				
Restructuring charges	\$ 21	\$ 34	\$ 804	\$ 1,596
Share-based compensation expense	493	429	460	454
	\$ 514	\$ 463	\$ 1,264	\$ 2,050
Income from discontinued operations	\$ 359	\$ —	\$ 94	\$ 88

(In thousands)	Q1 Ended 9/26/2014	Q2 Ended 12/26/2014	Q3 Ended 4/3/2015	Q4 Ended 7/3/2015
Fiscal 2015				
Amortization of intangible assets	\$ 95	\$ 95	\$ 95	\$ 95
Restructuring charges	1,497	(52)	3,218	204
Share-based compensation expense	580	449	696	462
	\$ 2,172	\$ 492	\$ 4,009	\$ 761
Income (loss) from discontinued operations	\$ 141	\$ (62)	\$ (29)	\$ 44

Note 14. Subsequent Events

During the first quarter of fiscal year 2017, we received an initial refund of \$3.7 million from IRAS. For more information about the tax refund, see “Note 11. Income Taxes”.

On September 6, 2016, our Board of Directors (the “Board”) authorized and declared a dividend distribution of one right (a “Right”) for each outstanding share of our common stock, par value \$0.01 per share (the “Common Shares”), to our stockholders of record as of the close of business on September 16, 2016. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Participating Preferred Stock, par value \$0.01 per share (the “Preferred Shares”), of the Company at an exercise price of \$35.00 (the “Exercise Price”) per one one-thousandth of a Preferred Share, subject to adjustment. The complete terms of the Rights are set forth in a Tax Benefit Preservation Plan (the “Plan”), dated as of September 6, 2016, between the Company and Computershare Inc., as rights agent. By adopting the Plan, we are helping to preserve the value of certain deferred tax benefits, including those generated by net operating losses (collectively, the “Tax Benefits”), which could be lost in the event of an “ownership change” as defined under Section 382 of the Internal Revenue Code of 1986, as amended. The Plan reduces the likelihood that changes in our investor base have the unintended effect of limiting our use of the Tax Benefits.

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

We intend to submit both the Plan and the Charter Amendments to a stockholder vote at our 2016 annual meeting of stockholders. If our stockholders do not approve the Plan it will expire. If our stockholders do not approve the Charter Amendments, they will not become effective.

In connection with the adoption of the Plan, on September 7, 2016, we filed with the Secretary of State of the State of Delaware a Certificate of Elimination with respect to our existing Series A Junior Participating Preferred Stock (the “Existing Series A Preferred Stock”) to eliminate from our Amended and Restated Certificate of Incorporation, as amended, all references to the Existing Series A Preferred Stock. No shares of the Existing Series A Preferred Stock were ever issued or outstanding. In addition, on September 7, 2016, in connection with the adoption of the Plan, we filed with the Secretary of State of Delaware a Certificate of Designation of Rights Preferences and Privileges of Series A Participating Preferred Stock to set forth the rights, powers and preferences of our Series A Participating Preferred Stock.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, Aviat carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended, (the Exchange Act). Disclosure controls and procedures are controls and other procedures designed to reasonably assure that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that this information is accumulated and communicated to our management, including the Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, and effected by the Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) 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.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, management has assessed the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of July 1, 2016.

Changes in Internal Controls over Financial Reporting:

Our management, with the oversight of our Audit Committee, has implemented the following remediation steps to address previously disclosed material weaknesses and to improve our internal control over financial reporting:

- **COSO Components - Risk Assessment and Monitoring Activities.** We determined that our controls pertaining to risk assessment and monitoring activities as of July 3, 2015 (our prior fiscal year end) did not operate effectively, resulting in a material weakness pertaining to these COSO components. Specifically, (i) with respect to risk assessment, we did not sufficiently identify and address risks associated with (a) the adequacy of training needs of employees whose job functions bear upon our accounting and financial reporting; (b) segregation of duty conflicts and the adequacy and effectiveness of compensating controls; and (c) certain processes, further noted in the Control Activities discussion below, resulted in inadequately designed control activities; and (ii) with respect to monitoring activities, (a) we did not design and maintain effective controls for the review, supervision and monitoring of our international accounting operations and for evaluating the adequacy of our internal control over financial reporting, including adequate documentation of control performance; and (b) there were insufficient procedures to effectively determine the adequacy of our internal control over financial reporting. The deficiencies in these COSO components are interrelated and represent a material weakness. This material weakness contributed to the other material weaknesses described below and an environment where there was more than a remote likelihood that a material misstatement of the interim and annual consolidated financial statements could occur and not be prevented or

detected. As a result, adjustments to various accounts were made to correct errors that were determined to be immaterial to the prior period financial statements.

Remedial actions. Our Board of Directors directed our senior management to ensure that a proper, consistent tone from the top is communicated throughout the organization, which tone emphasizes the expectation that previously existing control deficiencies will be rectified through implementation of controls and process improvements to ensure strict compliance with US GAAP and regulatory requirements. We made the following changes to effect a proper tone from the top through changes in our personnel, policies and processes:

- Strengthened the oversight of the finance organization by hiring a new Vice President, Corporate Controller and Principal Accounting Officer, and a Senior Director of SEC Reporting and Compliance to supervise the design and execution of internal controls within the organization.
- Enhanced the oversight of the SOX Compliance function through the leadership of the Senior Director of SEC Reporting and Compliance, who has direct access to our Audit Committee.
- Aligned financial reporting control design with both the COSO 2013 framework and PCAOB standards, specifically related to management review controls.
- Implemented changes in our IT infrastructure to require proper segregation of duties and change management procedures.
- Completed the assessment of the existing roles and responsibilities and remediated system access and functionality issues.
- Developed processes to monitor all remaining segregation of duties conflicts on an on-going basis.
- Completed the related internal control design and implementation activities that included financial statement analytical reviews, review and approval controls in these areas, and an enhanced and expanded internal control certification by business process owners.
- Increased and enhanced balance sheet reviews to allow more focus on quality account reconciliations and enhanced monitoring over international activities.
- Increased communication of our accounting policies through on-going training.
- **Control Activities - Account Reconciliations.** The design and operating effectiveness of our controls were inadequate to ensure that account reconciliations were reviewed and approved for accuracy and completeness and that we identified, accumulated and documented appropriate information necessary to support account balances.

Remedial actions. We enhanced our account reconciliation procedures and controls, which now include reviews of all balance sheet accounts in a timely manner. We also enhanced the documentation requirements in support of the account reconciliation review process including account reconciliations at our foreign locations, and ensured that the reports generated by our enterprise resource planning system which support the account reconciliations are complete and accurate.

- **Control Activities - Revenue Recognition.** The design and operating effectiveness of our controls were inadequate to ensure that the terms and conditions of all negotiated customer discounts were agreed upon with the customer in advance of recognizing revenue to ensure that the reported amount and timing of revenue recognition was accurate.

Remedial actions. We provided additional training to employees whose job functions impact our financial reporting close process, including members of the sales and operations organizations, to ensure that our employees developed a greater understanding of revenue recognition rules and related control activities that they perform. We also enhanced and expanded our internal certification by requiring senior level employees and all Sales, Finance and Accounting personnel to complete detailed questionnaires quarterly. Any feedback received is reviewed by the accounting group so appropriate actions are initiated and resolved timely.

- **Control Activities - Revenue Cut-off Procedures.** The design and operating effectiveness of our controls were inadequate to ensure that all revenue recognized on shipments made under FOB Destination terms was recognized in the proper period.

Remedial actions. We expanded the cut-off period over which FOB Destination shipments are reviewed at quarter end to ensure revenue is recognized in the proper period.

- **Control Activities - Project Accruals.** The design and operating effectiveness of our controls were inadequate to ensure that the project accrual balances were accurate.

Remedial actions. We implemented additional internal reporting procedures, including enhancement of analytical reviews to assess the reasonableness of period-end accruals. We also enhanced and increased the frequency of cross-functional communication and coordination between finance and the rest of the Company to ensure current data are analyzed for the completeness and accuracy of the accrual.

- **Control Activities - Inventory Existence.** The design and operating effectiveness of our controls over inventory cycle counts and inventory at consigned locations were inadequate to ensure that the underlying quantities in support of inventory balances were accurate.

Remedial actions. We reviewed and expanded our inventory count procedures for both cycle count and year end wall-to-wall count locations. In addition, we physically observed the inventory count and reviewed the count procedures, to ensure all relevant risks, procedures and count results are adequately documented, variances are investigated and adjusted, and are monitored on an on-going basis.

After completing our testing of the design and operating effectiveness of the new procedures, we concluded that we have remediated the previously identified material weaknesses as of July 1, 2016.

Except for the items noted above, we have made no changes to our internal control over financial reporting during the fiscal year ended July 1, 2016 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal controls over financial reporting because Aviat is a non-accelerated filer and is not subject to auditor attestation requirements under the applicable rules of the Securities Exchange Commission.

Limitations on the Effectiveness of Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. Internal control over financial reporting, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives will be met. Because of the inherent limitations in internal control over financial reporting, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because we will file a definitive Proxy Statement with the SEC within 120 days after the end of our fiscal year ended July 1, 2016.

Item 10. Directors, Executive Officers and Corporate Governance

We adopted a Code of Conduct that is available at www.aviatnetworks.com. No amendments to our Code of Business Ethics or waivers from our Code of Conduct with respect to any of our executive officers or directors have been made. If, in the future, we amend our Code of Conduct or grant waivers from our Code of Conduct with respect to any of our executive officers or directors, we will make information regarding such amendments or waivers available on our corporate website (www.aviatnetworks.com) for a period of at least 12 months.

For information with respect to Executive Officers, see Part I, Item 1 of this Annual Report on Form 10-K, under “Executive Officers of the Registrant.”

Information regarding our directors and compliance with Section 16(a) of the Exchange Act by our directors and executive officers will appear in our definitive Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

Information regarding our executive compensation will appear in our definitive Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management and related stockholder matters will appear in our definitive Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions, and director independence will appear in our definitive Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding our principal accountant fees and services will appear in our definitive Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report.

1. Financial Statements

The financial statements of Aviat Networks, Inc. are set forth in Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

Schedule	Page
Schedule II — Valuation and Qualifying Accounts for the three fiscal years ended July 1, 2016	88

All other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules or because the information required is included in the consolidated financial statements or notes thereto.

(b) Exhibits.

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

SIGNATURES

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

AVIAT NETWORKS, INC.
(Registrant)

Date: September 8, 2016

By: /s/ Ralph S. Marimon
Ralph S. Marimon
Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael A. Pangia</u> Michael A. Pangia	President and Chief Executive Officer (Principal Executive Officer)	September 8, 2016
<u>/s/ Ralph S. Marimon</u> Ralph S. Marimon	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	September 8, 2016
<u>/s/ Eric Chang</u> Eric Chang	Vice President, Corporate Controller and Principal Accounting Officer (Principal Accounting Officer)	September 8, 2016
<u>/s/ John Mutch</u> John Mutch	Chairman of the Board	September 8, 2016
<u>/s/ William A. Hasler</u> William A. Hasler	Director	September 8, 2016
<u>/s/ James R. Henderson</u> James R. Henderson	Director	September 8, 2016
<u>/s/ Robert G. Pearse</u> Robert G. Pearse	Director	September 8, 2016
<u>/s/ John Quicke</u> John Quicke	Director	September 8, 2016
<u>/s/ James C. Stoffel</u> James C. Stoffel	Director	September 8, 2016

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
AVIAT NETWORKS, INC.

Years Ended July 1, 2016, July 3, 2015 and June 27, 2014

(In thousands)	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowances for collection losses:				
Year ended July 1, 2016	\$ 6,641	\$ 2,431	\$ 1,105 ^(A)	\$ 7,967
Year ended July 3, 2015	\$ 7,442	\$ 1,302	\$ 2,103 ^(B)	\$ 6,641
Year ended June 27, 2014	\$ 10,256	\$ 1,535	\$ 4,349 ^(C)	\$ 7,442

Note A - Consisted of changes to allowance for collection losses of \$308 thousand for foreign currency translation losses and \$797 thousand for uncollectible accounts charged off, net of recoveries on accounts previously charged off.

Note B - Consisted of changes to allowance for collection losses of \$250 thousand for foreign currency translation losses and \$1,853 thousand for uncollectible accounts charged off, net of recoveries on accounts previously charged off.

Note C - Consisted of changes to allowance for collection losses of \$25 thousand for foreign currency translation losses and \$4,324 thousand for uncollectible accounts charged off, net of recoveries on accounts previously charged off.

EXHIBIT INDEX

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

Ex. #	Description
2.1	Intentionally omitted
2.2	Intentionally omitted
2.3	Intentionally omitted
2.4	Asset Purchase Agreement by and among Aviat U.S., Inc. and EION Networks, Inc., dated as of September 2, 2011 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on September 9, 2011, File No. 001-33278)
3.1	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Aviat Networks, Inc., as filed with the Secretary of State of the State of Delaware on June 10, 2016 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on June 13, 2016, File No. 001-33278)
3.2	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the SEC on September 7, 2016)
3.3	Amended and Restated Bylaws of Aviat Networks, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the SEC on October 2, 2015, File No. 001-33278)
3.4	Certificate of Ownership and Merger Merging Aviat Networks, Inc. into Harris Stratex Networks, Inc., effective January 27, 2010, as filed with the Secretary of State of the State of Delaware on January 27, 2010 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on January 28, 2010, File No. 001-33278)
4.1	Intentionally omitted
4.1.1	Specimen common stock certificate, adopted as of January 29, 2010 (incorporated by reference to Exhibit 4.1.1 to the Annual Report on Form 10-K for fiscal year end July 2, 2010 filed with the SEC on September 9, 2010, File No. 001-33278)
4.2	Intentionally omitted
4.3	Intentionally omitted
4.4	Tax Benefit Preservation Plan, dated September 6, 2016, by and between Aviat Networks, Inc. and Computershare Inc., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on September 7, 2016)
10.1	Intentionally omitted
10.2	Intentionally omitted
10.3	Intellectual Property Agreement between Harris Stratex Networks, Inc. and Harris Corporation dated January 26, 2007 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the SEC on February 1, 2007, File No. 001-33278)
10.4	Intentionally omitted
10.5	Intentionally omitted
10.6	Intentionally omitted
10.6.1	Intentionally omitted
10.7	Intentionally omitted
10.8	Intentionally omitted
10.9	Intentionally omitted
10.10	Tax Sharing Agreement between Harris Stratex Networks, Inc. and Harris Corporation dated January 26, 2007 (incorporated by reference to Exhibit 10.11 to the Current Report on Form 8-K filed with the SEC on February 1, 2007, File No. 001-33278)
10.11	Intentionally omitted
10.12*	Intentionally omitted
10.13*	Intentionally omitted
10.13.1*	Intentionally omitted

<u>Ex. #</u>	<u>Description</u>
10.14*	Standard Form of Executive Employment Agreement between Harris Stratex Networks, Inc. and certain executives (incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K filed with the SEC on February 1, 2007, File No. 001-33278)
10.15	Form of Indemnification Agreement between Harris Stratex Networks, Inc. and its directors and certain officers (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 of Stratex Networks, Inc., File No. 33-13431)
10.16	Intentionally omitted
10.17*	Harris Stratex Networks, Inc. Annual Incentive Plan (incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K for the fiscal year ended June 27, 2008 filed with the SEC on September 25, 2008, File No. 001-33278)
10.18*	Intentionally omitted
10.18.1	Intentionally omitted
10.18.2	Aviat Networks, Inc. 2007 Stock Equity Plan (as Amended and Restated Effective November 13, 2015)(incorporated by reference to Appendix A to Schedule 14A filed with the SEC on October 1, 2015, File No. 001-33278)
10.19	Intentionally omitted
10.19.1	Intentionally omitted
10.20	Intentionally omitted
10.20.1	Intentionally omitted
10.20.2	Intentionally omitted
10.20.3	Second Amended and Restated Loan and Security Agreement, dated as of March 28, 2014, by and among Aviat Networks, Inc., Aviat U.S., Inc., Aviat Networks (S) Pte. Ltd., and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on March 31, 2014, File No. 001-33278)
10.20.4	Amendment #1 to Second Amended and Restated Loan and Security Agreement, dated as of September 25, 2014, by and among Aviat Networks, Inc., Aviat U.S., Inc., Aviat Networks (S) Pte. Ltd. and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on September 29, 2014, File No. 001-33278)
10.20.5	Amendment #2 to Second Amended and Restated Loan and Security Agreement, dated as of October 30, 2014, by and among Aviat Networks, Inc., Aviat U.S., Inc., Aviat Networks (S) Pte. Ltd. and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on October 30, 2014, File No. 001-33278)
10.20.6	Amendment #3 to Second Amended and Restated Loan and Security Agreement, dated as of December 2, 2014, by and among Aviat Networks, Inc., Aviat U.S., Inc., Aviat Networks (S) Pte. Ltd., and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on December 5, 2014, File No. 001-33278)
10.20.7	Amendment #4 to Second Amended and Restated Loan and Security Agreement, dated February 27, 2015, by and among Aviat Networks, Inc., Aviat U.S., Inc., Aviat Networks (S) Pte. Ltd., and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on March 3, 2015, File No. 001-33278)
10.20.8	Amendment #5 to Second Amended and Restated Loan and Security Agreement, dated as of March 30, 2016, by and among Aviat Networks, Inc., Aviat U.S., Inc., Aviat Networks (S) Pte. Ltd. and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 1, 2016, File No. 001-33278)
10.20.9	Amendment #6 to Second Amended and Restated Loan and Security Agreement, dated as of June 30, 2016, by and among Aviat Networks, Inc., Aviat U.S., Inc., Aviat Networks (S) Pte. Ltd. and Silicon Valley Bank (incorporate by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on July 1, 2016, File No. 001-33278)
10.21	Intentionally omitted
10.22*	Intentionally omitted
10.22.1*	Intentionally omitted
10.23*	Employment Agreement, dated as of April 1, 2006, between Harris Stratex Networks, Inc. and Heinz Stumpe (incorporated by reference to Exhibit 10.15.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2007 filed with the SEC on May 8, 2007, File No. 001-33278)
10.24*	Intentionally omitted

<u>Ex. #</u>	<u>Description</u>
10.24.1*	Intentionally omitted
10.24.2*	Intentionally omitted
10.25*	Employment Agreement, dated as of May 14, 2002, between Stratex Networks, Inc. and Shaun McFall (incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K for the fiscal year ended July 3, 2009 filed with the SEC on September 4, 2009, File No. 001-33278)
10.25.1*	Amendment, effective April 1, 2006, to Employment Agreement, dated May 14, 2002, between Stratex Networks, Inc. and Shaun McFall (incorporated by reference to Exhibit 10.25.1 to the Annual Report on Form 10-K for the fiscal year ended July 3, 2009 filed with the SEC on September 4, 2009, File No. 001-33278)
10.26*	Intentionally omitted
10.26.1*	Intentionally omitted
10.27*	Intentionally omitted
10.28*	Employment Agreement, dated July 18, 2011, between Aviat Networks, Inc. and Michael Pangia (incorporated by reference to the Current Report on Form 8-K filed with the SEC on July 20, 2011, File No. 001-33278)
10.29*	Employment Agreement, dated December 30, 2010, between Aviat Networks, Inc. and John Madigan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 4, 2011, File No. 001-33278)
10.30*	Employment Agreement, dated December 29, 2014, between Aviat Networks, Inc. and Michael Shahbazian (incorporated by reference to the Current Report on Form 8-K filed with the SEC on December 29, 2014, File No. 001-33278)
10.31*	Employment Agreement, dated April 29, 2015, between Aviat Networks, Inc. and Ralph S. Marimon (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 14, 2015, File No. 001-33278)
10.32	Letter Agreement, dated as of January 11, 2015, among Aviat Networks, Inc., Steel Partners Holdings L.P., Lone Star Value Management, LLC and certain other parties (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 12, 2015, File No. 001-33278)
10.33*	Employment Agreement, dated January 20, 2016, between Aviat Networks, Inc. and Eric Chang (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 21, 2016, File No. 001-33278)
10.34	Lease Agreement, dated June 8, 2016, between Aviat Networks, Inc., through its wholly owned subsidiary Aviat U.S., Inc., and The Irvine Company LLC
10.35	Lease Termination Agreement, dated June 1, 2016, between Aviat Networks, Inc., through its wholly owned subsidiary Aviat U.S., Inc., and Aslan Newcastle Great America Owner, L.L.C.
16.1	Intentionally omitted
16.2	Letter from KPMG LLP to the Securities and Exchange Commission dated February 26, 2015 (incorporated by reference to Exhibit 16.1 to the Current Report on Form 8-K filed with the SEC on March 3, 2015)
21	List of Subsidiaries of Aviat Networks, Inc.
23.1	Consent of BDO USA, LLP
23.2	Consent of KPMG LLP
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management compensatory contract, arrangement or plan required to be filed as an exhibit pursuant to Item 15(b) of this report.

LEASE

BETWEEN

THE IRVINE COMPANY LLC

AND

AVIAT U.S., INC.

LEASE

THIS LEASE is made as of June 8th, 2016, by and between **THE IRVINE COMPANY LLC**, a Delaware limited liability company, hereafter called "**Landlord**," and **AVIAT U.S., INC.**, a Delaware corporation, hereafter called "**Tenant**."

ARTICLE 1. BASIC LEASE PROVISIONS

Each reference in this Lease to the "**Basic Lease Provisions**" shall mean and refer to the following collective terms, the application of which shall be governed by the provisions in the remaining Articles of this Lease.

1. **Tenant's Trade Name:** N/A
2. **Premises:** Suite No. 200 (The Premises are more particularly described in Section 2.1)
Address of Building: 860 N McCarthy Blvd, Milpitas, CA 95035
Project Description McCarthy Center (as shown on **Exhibit Y** to this Lease)
3. **Use of Premises:** General office, research and development and computer lab.
4. **Estimated Commencement Date:** 8 weeks from and after the date of this Lease
5. **Lease Term:** 60 months, plus such additional days as may be required to cause this Lease to expire on the final day of the calendar month.
6. **Basic Rent:**

Months of Term or Period	Monthly Rate Per Rentable Square Foot	Monthly Basic Rent (rounded to the nearest dollar)
1 to 12	\$1.35	\$25,650.00
13 to 24	\$1.39	\$26,410.00
25 to 36	\$1.43	\$27,170.00
37 to 48	\$1.48	\$28,120.00
49 to 60	\$1.52	\$28,880.00

Notwithstanding the above schedule of Basic Rent to the contrary, as long as Tenant is not in Default (as defined in Section 14.1) under this Lease, Tenant shall be entitled to an abatement of 3 full calendar months of Basic Rent in the aggregate amount of \$76,950.00 (i.e. \$25,650.00 per month) (the "**Abated Basic Rent**") for the initial 2nd, 3rd, and 4th full calendar months of the Term (the "**Abatement Period**"). In the event Tenant Defaults at any time during the Term beyond any applicable "cure" period with the result that Tenant's right to possession of the Premises is terminated, then unamortized Abated Basic Rent to the date of such termination (amortized over the initial 60 months of the Term) shall immediately become due and payable. The payment by Tenant of the unamortized Abated Basic Rent in the event of a Default shall not limit or affect any of Landlord's other rights, pursuant to this Lease or at law or in equity. Only Basic Rent shall be abated during the Abatement Period and all other additional rent and other costs and charges specified in this Lease shall remain as due and payable pursuant to the provisions of this Lease.

7. **Expense Recovery Period:** Every twelve month period during the Term (or portion thereof during the first and last Lease years) ending June 30.
8. **Floor Area of Premises:** approximately 19,000 rentable square feet
Floor Area of Building: approximately 53,284 rentable square feet
9. **Security Deposit:** \$31,768.00
10. **Broker(s):** Irvine Realty Company and CBRE, Inc. (collectively, "**Landlord's Broker**") is the agent of Landlord exclusively and CBRE, Inc./Palo Alto ("**Tenant's Broker**") is the agent of Tenant exclusively.
11. **Parking:** 72 parking spaces in accordance with the provisions set forth in **Exhibit F** to this Lease.

12. **Address for Payments and Notices:**

LANDLORD

Payment Address:

THE IRVINE COMPANY LLC
P.O. Box #841122
San Francisco, CA 94139-1122

Notice Address:

THE IRVINE COMPANY LLC
550 Newport Center Drive
Newport Beach, CA 92660
Attn: Senior Vice President, Property Operations
Irvine Office Properties

TENANT

AVIAT U.S., INC.
860 N McCarthy Blvd, Suite 200
Milpitas, CA 95035

LIST OF LEASE EXHIBITS (All exhibits, riders and addenda attached to this Lease are hereby incorporated into and made a part of this Lease):

Exhibit A	Description of Premises
Exhibit B	Operating Expenses
Exhibit C	Utilities and Services
Exhibit D	Tenant's Insurance
Exhibit E	Rules and Regulations
Exhibit F	Parking
Exhibit G	Additional Provisions
Exhibit H	Hazardous Materials Disclosure Statement
Exhibit X	Work Letter
Exhibit Y	Project Description

ARTICLE 2. PREMISES

2.1. LEASED PREMISES. Landlord leases to Tenant and Tenant leases from Landlord the Premises shown in **Exhibit A** (the "**Premises**"), containing approximately the floor area set forth in Item 8 of the Basic Lease Provisions (the "**Floor Area**"). Landlord and Tenant stipulate and agree that the Floor Area of Premises set forth in Item 8 of the Basic Lease Provisions is correct. The Premises are a portion of certain real property which is leased by Landlord pursuant to that certain Master Lease dated December 31, 2003 (the "**Master Lease**") by and between McCarthy Center Partners LLC, a Delaware limited liability company, subsequently assigned to The Irvine Company LLC, a Delaware limited liability company ("**Master Lessor**"), as "Landlord", and Landlord as "Tenant". That certain Master Lease (Short Form – Memorandum) was recorded on December 31, 2003 as Document No. 17553727 in the Official Records of Santa Clara County, California.

2.2. ACCEPTANCE OF PREMISES. Tenant acknowledges that neither Landlord nor any representative of Landlord has made any representation or warranty with respect to the Premises, the Building or the Project or the suitability or fitness of either for any purpose, except as set forth in this Lease. Tenant acknowledges that the flooring materials which may be installed within portions of the Premises located on the ground floor of the Building may be limited by the moisture content of the Building slab and underlying soils. The taking of possession or use of the Premises by Tenant for any purpose other than construction shall conclusively establish that the Premises and the Building were in satisfactory condition and in conformity with the provisions of this Lease in all respects, except for those matters which Tenant shall have brought to Landlord's attention on a written punch list. The punch list shall be limited to any items required to be accomplished by Landlord under the Work Letter (if any) attached as **Exhibit X**, and shall be delivered to Landlord within 30 days after the Commencement Date (as defined herein). If there is no Work Letter, or if no items are required of Landlord under the Work Letter, by taking possession of the Premises Tenant accepts the improvements in their existing condition, and waives any right or claim against Landlord arising out of the condition of the Premises. Nothing contained in this Section 2.2 shall affect the commencement of the Term or the obligation of Tenant to pay rent. Landlord shall diligently complete all punch list items of which it is notified as provided above.

ARTICLE 3. TERM

3.1. GENERAL. The term of this Lease ("**Term**") shall be for the period shown in Item 5 of the Basic Lease Provisions. The Term shall commence ("**Commencement Date**") on the earlier of (a) the date the Premises are deemed "ready for occupancy" (as hereinafter defined) and possession thereof is delivered to Tenant, but not sooner than July 1, 2016, or (b) the date Tenant commences its regular business activities within the Premises. Promptly following request by Landlord, the parties shall memorialize on a form provided by Landlord (the "**Commencement Memorandum**") the actual Commencement Date and the expiration date ("**Expiration Date**") of this Lease; should Tenant fail to execute and return the Commencement Memorandum to Landlord within 5 business days (or provide specific written objections thereto within that period), then Landlord's determination of the Commencement and Expiration Dates as set forth in the Commencement Memorandum shall be conclusive. The Premises shall be deemed "**ready for occupancy**" when Landlord, to the extent applicable, has substantially completed all the work required to be completed by Landlord pursuant to the Work Letter (if any) attached to this Lease but for minor punch list matters, and has obtained the requisite governmental approvals for Tenant's occupancy in connection with such work.

3.2. DELAY IN POSSESSION. If Landlord, for any reason whatsoever, cannot deliver possession of the Premises to Tenant on or before the Estimated Commencement Date set forth in Item 4 of the Basic Lease Provisions, this Lease shall not be void or voidable nor shall Landlord be liable to Tenant for any resulting loss or damage. However, Tenant shall not be liable for any rent until the Commencement Date occurs as provided in Section 3.1 above, except that if Landlord's failure to substantially complete all work required of Landlord pursuant to Section 3.1(i) above is attributable to any action or inaction by Tenant (including without limitation any Tenant Delay described in the Work Letter, if any, attached to this Lease), then the Premises shall be deemed ready for occupancy, and Landlord shall be entitled to full performance by Tenant (including the payment of rent), as of the date Landlord would have been able to substantially complete such work and deliver the Premises to Tenant but for Tenant's delay(s).

ARTICLE 4. RENT AND OPERATING EXPENSES

4.1. BASIC RENT. Concurrently with the execution and delivery of this Lease, Tenant shall pay to Landlord the sum of \$52,820.00, constituting the Basic Rent due and payable under this Lease (at the monthly rate shown in Item 6 of the Basic Lease Provisions) for the initial 1st, 13th and 25th months of the Term. From and after the Commencement Date, Tenant shall pay to Landlord without deduction or offset a Basic Rent for the Premises in the total amount shown (including subsequent adjustments, if any) in Item 6 of the Basic Lease Provisions (the "**Basic Rent**"). If the Commencement Date is other than the first day of a calendar month, any rental adjustment shown in Item 6 shall be deemed to occur on the first day of the next calendar month following the specified monthly anniversary of the Commencement Date. Notwithstanding anything contrary contained in this Section 4.1, the Basic Rent shall be due and payable in advance commencing on the Commencement Date and continuing thereafter on the first day of each successive calendar month of the Term, as prorated for any partial month. No demand, notice or invoice shall be required. The next installment of Basic Rent shall be due on the first day of the fifth calendar month

of the Term, which installment shall, if applicable, be appropriately prorated to reflect the amount prepaid for that calendar month.

4.2. OPERATING EXPENSES. Tenant shall pay Tenant's Share of Operating Expenses in accordance with **Exhibit B** of this Lease.

4.3. SECURITY DEPOSIT. Concurrently with Tenant's delivery of this Lease, Tenant shall deposit with Landlord the sum, if any, stated in Item 9 of the Basic Lease Provisions (the "**Security Deposit**"), to be held by Landlord as security for the full and faithful performance of Tenant's obligations under this Lease, to pay any rental sums, including without limitation such additional rent as may be owing under any provision hereof, and to maintain the Premises as required by Sections 7.1 and 15.2 or any other provision of this Lease. Upon any breach of the foregoing obligations by Tenant, Landlord may apply all or part of the Security Deposit as full or partial compensation. If any portion of the Security Deposit is so applied, Tenant shall within 5 days after written demand by Landlord deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on the Security Deposit. In no event may Tenant utilize all or any portion of the Security Deposit as a payment toward any rental sum due under this Lease. Any unapplied balance of the Security Deposit shall be returned to Tenant or, at Landlord's option, to the last assignee of Tenant's interest in this Lease within 30 days following the termination of this Lease and Tenant's vacation of the Premises. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code, or any similar or successor laws now or hereafter in effect, in connection with Landlord's application of the Security Deposit to prospective rent that would have been payable by Tenant but for the early termination due to Tenant's Default (as defined herein).

ARTICLE 5. USES

5.1. USE. Tenant shall use the Premises only for the purposes stated in Item 3 of the Basic Lease Provisions and for no other use whatsoever. The uses prohibited under this Lease shall include, without limitation, use of the Premises or a portion thereof for (i) offices of any agency or bureau of the United States or any state or political subdivision thereof; (ii) offices or agencies of any foreign governmental or political subdivision thereof; or (iii) schools, temporary employment agencies or other training facilities which are not ancillary to corporate, executive or professional office use. Tenant shall not do or permit anything to be done in or about the Premises which will in any way interfere with the rights or quiet enjoyment of other occupants of the Building or the Project, or use or allow the Premises to be used for any unlawful purpose, nor shall Tenant permit any nuisance or commit any waste in the Premises or the Project. Tenant shall not perform any work or conduct any business whatsoever in the Project other than inside the Premises. Tenant shall comply at its expense with all present and future laws, ordinances and requirements of all governmental authorities that pertain to Tenant or its use of the Premises. As of the date of this Lease, there has been no inspection of the Building and Project by a Certified Access Specialist as referenced in Section 1938 of the California Civil Code.

5.2. SIGNS. Provided Tenant continues to occupy the entire Premises, Tenant shall have the non-exclusive right to one (1) position on the exterior monument sign at the front entrance to the Building and one (1) exterior "building top" sign on the Building for Tenant's name and graphics in a location designated by Landlord, subject to Landlord's right of prior approval that such exterior signage is in compliance with the Signage Criteria (defined below). Except as provided in the foregoing, and except for Landlord's standard lobby directory and suite signage identifying Tenant's name and/or logo, Tenant shall have no right to maintain signs in any location in, on or about the Premises, the Building or the Project and shall not place or erect any signs that are visible from the exterior of the Building. The size, design, graphics, material, style, color and other physical aspects of any permitted sign shall be subject to Landlord's written determination, as determined solely by Landlord, prior to installation, that signage is in compliance with any covenants, conditions or restrictions encumbering the Premises and Landlord's signage program for the Project, as in effect from time to time and approved by the City in which the Premises are located ("**Signage Criteria**"). Prior to placing or erecting any such signs, Tenant shall obtain and deliver to Landlord a copy of any applicable municipal or other governmental permits and approvals, except to Landlord's standard suite signage. Tenant shall be responsible for all costs of any permitted sign, including, without limitation, the fabrication, installation, maintenance and removal thereof and the cost of any permits therefor, except that Landlord shall pay for the initial installation costs only of the standard lobby directory and suite signage. If Tenant fails to maintain its sign in good condition, or if Tenant fails to remove same upon termination of this Lease and repair and restore any damage caused by the sign or its removal, Landlord may do so at Tenant's expense. Landlord shall have the right to temporarily remove any signs in connection with any repairs or maintenance in or upon the Building. The term "**sign**" as used in this Section shall include all signs, designs, monuments, displays, advertising materials, logos, banners, projected images, pennants, decals, pictures, notices, lettering, numerals or graphics. Tenant's exterior signage rights under this Section 5.2 belong solely to Aviat U.S., Inc., a Delaware corporation, or any transferee under a Permitted Transfer, and any attempted assignment or transfer of such rights shall be void and of no force and effect.

5.3. HAZARDOUS MATERIALS. Tenant shall not generate, handle, store or dispose of hazardous or toxic materials (as such materials may be identified in any federal, state or local law or regulation) in the Premises or Project without the prior written consent of Landlord; provided that the foregoing shall not be deemed to proscribe the use by Tenant of customary office supplies in normal quantities so long as such

use comports with all applicable laws. Tenant acknowledges that it has read, understands and, if applicable, shall comply with the provisions of **Exhibit H** to this Lease, if that Exhibit is attached.

ARTICLE 6. LANDLORD SERVICES

6.1. UTILITIES AND SERVICES. Landlord and Tenant shall be responsible to furnish those utilities and services to the Premises to the extent provided in **Exhibit C**, subject to the conditions and payment obligations and standards set forth in this Lease. Landlord shall not be liable for any failure to furnish any services or utilities when the failure is the result of any accident or other cause beyond Landlord's reasonable control, nor shall Landlord be liable for damages resulting from power surges or any breakdown in telecommunications facilities or services. Landlord's temporary inability to furnish any services or utilities shall not entitle Tenant to any damages, relieve Tenant of the obligation to pay rent or constitute a constructive or other eviction of Tenant, except that Landlord shall diligently attempt to restore the service or utility promptly. Tenant shall comply with all rules and regulations which Landlord may reasonably establish for the provision of services and utilities, and shall cooperate with all reasonable conservation practices established by Landlord. Landlord shall at all reasonable times have free access to all electrical and mechanical installations of Landlord.

6.2. OPERATION AND MAINTENANCE OF COMMON AREAS. During the Term, Landlord shall operate and maintain all Common Areas within the Building and the Project. The term "**Common Areas**" shall mean all areas within the Building and other buildings in the Project which are not held for exclusive use by persons entitled to occupy space, including without limitation parking areas and structures, driveways, sidewalks, landscaped and planted areas, hallways and interior stairwells not located within the premises of any tenant, common electrical rooms, entrances and lobbies, elevators, and restrooms not located within the premises of any tenant.

6.3. USE OF COMMON AREAS. The occupancy by Tenant of the Premises shall include the use of the Common Areas in common with Landlord and with all others for whose convenience and use the Common Areas may be provided by Landlord, subject, however, to compliance with Rules and Regulations described in Article 17 below. Landlord shall at all times during the Term have exclusive control of the Common Areas, and may restrain or permit any use or occupancy, except as otherwise provided in this Lease or in Landlord's rules and regulations. Tenant shall keep the Common Areas clear of any obstruction or unauthorized use related to Tenant's operations. Landlord may temporarily close any portion of the Common Areas for repairs, remodeling and/or alterations, to prevent a public dedication or the accrual of prescriptive rights, or for any other reasonable purpose. Landlord's temporary closure of any portion of the Common Areas for such purposes shall not deprive Tenant of reasonable access to the Premises.

6.4. CHANGES AND ADDITIONS BY LANDLORD. Landlord reserves the right to make alterations or additions to the Building or the Project or to the attendant fixtures, equipment and Common Areas, and such change shall not entitle Tenant to any abatement of rent or other claim against Landlord. No such change shall deprive Tenant of reasonable access to or use of (a) the Premises or any part of the Premises as well as (b) the elevator and stairs in the Building.

ARTICLE 7. REPAIRS AND MAINTENANCE

7.1. TENANT'S MAINTENANCE AND REPAIR. Subject to Articles 11 and 12, Tenant at its sole expense shall make all repairs necessary to keep the Premises and all improvements and fixtures therein in good condition and repair, ordinary wear and tear excepted. Notwithstanding Section 7.2 below, Tenant's maintenance obligation shall include without limitation all appliances, interior glass, doors, door closures, hardware, fixtures, electrical, plumbing, fire extinguisher equipment and other equipment installed in the Premises and all Alterations constructed by Tenant pursuant to Section 7.3 below, together with any supplemental HVAC equipment servicing only the Premises. All repairs and other work performed by Tenant or its contractors shall be subject to the terms of Sections 7.3 and 7.4 below. Alternatively, should Landlord or its management agent agree to make a repair on behalf of Tenant and at Tenant's request, Tenant shall promptly reimburse Landlord as additional rent for all reasonable costs incurred (including the standard supervision fee not to exceed 15% of such costs) upon submission of an invoice.

7.2. LANDLORD'S MAINTENANCE AND REPAIR. Subject to Articles 11 and 12, Landlord shall provide service, maintenance and repair with respect to the heating, ventilating and air conditioning ("**HVAC**") equipment of the Building (exclusive of any supplemental HVAC equipment servicing only the Premises) and shall maintain in good repair the Common Areas, roof, foundations, footings, the exterior surfaces of the exterior walls of the Building (including exterior glass), and the structural, electrical, mechanical and plumbing systems of the Building (including elevators, if any, serving the Building), except to the extent provided in Section 7.1 above. Landlord need not make any other improvements or repairs except as specifically required under this Lease, and nothing contained in this Section 7.2 shall limit Landlord's right to reimbursement from Tenant for maintenance, repair costs and replacement costs as provided elsewhere in this Lease. Notwithstanding any provision of the California Civil Code or any similar or successor laws to the contrary, Tenant understands that it shall not make repairs at Landlord's expense or by rental offset. Except as provided in Section 11.1 and Article 12 below, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements to any portion of the Building, including repairs to the Premises, nor

shall any related activity by Landlord constitute an actual or constructive eviction; provided, however, that in making repairs, alterations or improvements, Landlord shall interfere as little as reasonably practicable with the conduct of Tenant's business in the Premises. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932, and Sections 1941 and 1942 of the California Civil Code, or any similar or successor laws now or hereafter in effect.

7.3. ALTERATIONS. Except for cosmetic alterations and projects that do not exceed \$15,000.00 during any calendar year of the Term, that do not require a permit from the City of Milpitas and that satisfy the criteria in the next following sentence (which cosmetic work shall require notice to Landlord but not Landlord's consent), Tenant shall make no alterations, additions, decorations, or improvements (collectively referred to as "**Alterations**") to the Premises without the prior written consent of Landlord. Landlord's consent shall not be unreasonably withheld as long as the proposed Alterations do not affect the structural, electrical or mechanical components or systems of the Building, are not visible from the exterior of the Premises, do not change the basic floor plan of the Premises, and utilize only Landlord's building standard materials ("**Standard Improvements**"). Landlord may impose, as a condition to its consent, any requirements that Landlord in its reasonable discretion may deem reasonable or desirable. Without limiting the generality of the foregoing, Tenant shall use Landlord's designated mechanical and electrical contractors for all Alterations work affecting the mechanical or electrical systems of the Building. Should Tenant perform any Alterations work that would necessitate any ancillary Building modification or other expenditure by Landlord, then Tenant shall promptly fund the cost thereof to Landlord. Tenant shall obtain all required permits for the Alterations and shall perform the work in compliance with all applicable laws, regulations and ordinances with contractors reasonably acceptable to Landlord, and except for cosmetic Alterations not requiring a permit, Landlord shall be entitled to a supervision fee in the amount of 3% of the cost of the Alterations. Any request for Landlord's consent shall be made in writing and shall contain architectural plans describing the work in detail reasonably satisfactory to Landlord. Landlord may elect to cause its architect to review Tenant's architectural plans, and the reasonable and actual out-of-pocket cost of that review shall be reimbursed by Tenant. Should the Alterations proposed by Tenant and consented to by Landlord change the floor plan of the Premises, then Tenant shall, at its expense, furnish Landlord with as-built drawings and CAD disks compatible with Landlord's systems. Alterations shall be constructed in a good and workmanlike manner using materials of a quality reasonably approved by Landlord Unless Landlord otherwise agrees in writing, all Alterations affixed to the Premises, including without limitation all Tenant Improvements constructed pursuant to the Work Letter (except as otherwise provided in the Work Letter), but excluding moveable trade fixtures and furniture, shall become the property of Landlord and shall be surrendered with the Premises at the end of the Term. Notwithstanding the foregoing, Landlord shall have the right by written notice to Tenant given at the time of Landlord's consent to any Alterations requested by Tenant to require Tenant to remove by the Expiration Date, or sooner termination date of this Lease, all or any Alterations (including without limitation all telephone and data cabling) installed either by Tenant or by Landlord at Tenant's request (collectively, the "**Required Removables**"), and to replace any non-Standard Improvements with the applicable Standard Improvements. Tenant, at the time it requests approval for a proposed Alteration, may request in writing that Landlord advise Tenant whether the Alteration or any portion thereof, is a Required Removable. Within 10 days after receipt of Tenant's request, Landlord shall advise Tenant in writing as to which portions of the subject Alterations are Required Removables. In connection with its removal of Required Removables, Tenant shall repair any damage to the Premises arising from that removal and shall restore the affected area to its pre-existing condition, reasonable wear and tear excepted.

7.4. MECHANIC'S LIENS. Tenant shall keep the Premises free from any liens arising out of any work performed, materials furnished, or obligations incurred by or for Tenant. Upon request by Landlord, Tenant shall promptly cause any such lien to be released by posting a bond in accordance with California Civil Code Section 8424 or any successor statute. In the event that Tenant shall not, within 15 days following the imposition of any lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other available remedies, the right to cause the lien to be released by any means it deems proper, including payment of or defense against the claim giving rise to the lien. All expenses so incurred by Landlord, including Landlord's attorneys' fees, shall be reimbursed by Tenant promptly following receipt of Landlord's invoice for the same. Tenant shall give Landlord no less than 20 days' prior notice in writing before commencing construction of any kind on the Premises.

7.5. ENTRY AND INSPECTION. Landlord shall at all reasonable times have the right to enter the Premises to inspect them, to supply services in accordance with this Lease, to make repairs and renovations as reasonably deemed necessary by Landlord, and to submit the Premises to prospective or actual purchasers or encumbrance holders (or, during the final twelve months of the Term or when an uncured Default exists, to prospective tenants), all without being deemed to have caused an eviction of Tenant and without abatement of rent except as provided elsewhere in this Lease. If reasonably necessary, Landlord may temporarily close all or a portion of the Premises to perform repairs, alterations and additions. Except in emergencies or to provide Building services, Landlord shall provide Tenant with at least 24 hours prior verbal notice of entry and shall use reasonable efforts to minimize any interference with Tenant's use of the Premises.

ARTICLE 8. SPACE PLANNING AND SUBSTITUTION

Landlord shall have the right, upon providing not less than 120 days prior written notice, to move Tenant to other space of comparable size in the Building or in the Project provided that Landlord may exercise such relocation right only once during the Term and only subsequent to the expiration of the initial 18 months of

the Term. The new space shall be provided with improvements of comparable quality to those within the Premises. Landlord shall pay the reasonable out-of-pocket costs to relocate and reconnect Tenant's personal property and equipment within the new space; provided that Landlord may elect to cause such work to be done by its contractors. Landlord shall also reimburse Tenant for such other reasonable out-of-pocket costs that Tenant may incur in connection with the relocation, including without limitation necessary stationery revisions. Within 10 days following request by Landlord, Tenant shall execute an amendment to this Lease prepared by Landlord to memorialize the relocation. Should Tenant fail timely to execute and deliver the amendment to Landlord, or should Tenant thereafter fail to comply with the terms thereof, then Landlord may at its option elect to terminate this Lease upon not less than 60 days prior written notice to Tenant. Notwithstanding the foregoing, in the event the relocation space designated by Landlord is not acceptable to Tenant, then Tenant may, by written notice to Landlord within 5 business days following delivery of Landlord's relocation notice, elect to terminate this Lease by written notice to Landlord (the "**Termination Notice**"); in such event, unless Landlord revokes in writing its relocation election within three business days thereafter (in which case the Termination Notice shall be null and void), this Lease shall terminate 60 days following delivery of the Termination Notice.

ARTICLE 9. ASSIGNMENT AND SUBLETTING

9.1. RIGHTS OF PARTIES.

(a) Except as otherwise specifically provided in this Article 9, Tenant may not, either voluntarily or by operation of law, assign, sublet, encumber, or otherwise transfer all or any part of Tenant's interest in this Lease, or permit the Premises to be occupied by anyone other than Tenant (each, a "**Transfer**"), without Landlord's prior written consent, which consent shall not unreasonably be withheld in accordance with the provisions of Section 9.1(b). For purposes of this Lease, references to any subletting, sublease or variation thereof shall be deemed to apply not only to a sublease effected directly by Tenant, but also to a sub-subletting or an assignment of subtenancy by a subtenant at any level. Except as otherwise specifically provided in this Article 9, no Transfer (whether voluntary, involuntary or by operation of law) shall be valid or effective without Landlord's prior written consent and, at Landlord's election, a Transfer without such consent shall constitute a material default of this Lease.

(b) Except as otherwise specifically provided in this Article 9, if Tenant or any subtenant hereunder desires to transfer an interest in this Lease, Tenant shall first notify Landlord in writing and shall request Landlord's consent thereto. Tenant shall also submit to Landlord in writing: (i) the name and address of the proposed transferee; (ii) the nature of any proposed subtenant's or assignee's business to be carried on in the Premises; (iii) the terms and provisions of any proposed sublease or assignment (including without limitation the rent and other economic provisions, term, improvement obligations and commencement date); (iv) evidence that the proposed assignee or subtenant will comply with the requirements of **Exhibit D** to this Lease; and (v) any other information reasonably requested by Landlord and reasonably related to the Transfer. Landlord shall not unreasonably withhold its consent, provided: (1) the use of the Premises will be consistent with the provisions of this Lease and with Landlord's commitment to other tenants of the Building and Project; (2) any proposed subtenant or assignee demonstrates that it is financially responsible by submission to Landlord of all reasonable information as Landlord may reasonably request concerning the proposed subtenant or assignee, including, but not limited to (if such items are available), a balance sheet of the proposed subtenant or assignee as of a date within 90 days of the request for Landlord's consent and statements of income or profit and loss of the proposed subtenant or assignee for the two-year period preceding the request for Landlord's consent; (3) the proposed assignee or subtenant is neither an existing tenant or occupant of the Building or Project nor a prospective tenant with whom Landlord or Landlord's affiliate has been actively negotiating to become a tenant at the Building or Project during the 6 month period prior to the submission of Tenant's notice of request to assign; and (4) the proposed transferee is not an SDN (as defined below) and will not impose additional burdens or security risks on Landlord. If Landlord consents to the proposed Transfer, then the Transfer may be effected within 90 days after the date of the consent upon the terms described in the information furnished to Landlord; provided that any material change in the terms shall be subject to Landlord's consent as set forth in this Section 9.1(b). Landlord shall approve or disapprove any requested Transfer within 15 business days following receipt of Tenant's written notice and the information set forth above. Except in connection with a Permitted Transfer (as defined below), if Landlord approves the Transfer Tenant shall pay a transfer fee of \$1,000.00 to Landlord concurrently with Tenant's execution of a Transfer consent prepared by Landlord.

(c) Notwithstanding the provisions of Subsection (b) above, and except in connection with a "**Permitted Transfer**" (as defined below), in lieu of consenting to a proposed assignment of this Lease to or to a subletting of 50% or more of the Floor Area of the Premises for all or substantially all of the remainder of the Term, Landlord may elect to terminate this Lease in its entirety in the event of an assignment, or terminate this Lease as to the portion of the Premises proposed to be subleased with a proportionate abatement in the rent payable under this Lease, such termination to be effective on the date that the proposed sublease or assignment would have commenced. Landlord may thereafter, at its option, assign or re-let any space so recaptured to any third party, including without limitation the proposed transferee identified by Tenant.

(d) Should any Transfer occur, Tenant shall, except in connection with a Permitted Transfer, promptly pay or cause to be paid to Landlord, as additional rent, 50% of any amounts paid by the assignee or subtenant, however described and whether funded during or after the Lease Term, to the extent such

amounts are in excess of the sum of (i) the scheduled Basic Rent payable by Tenant hereunder (or, in the event of a subletting of only a portion of the Premises, the Basic Rent allocable to such portion as reasonably determined by Landlord) and (ii) the direct out-of-pocket costs, as evidenced by third party invoices provided to Landlord, incurred by Tenant to effect the Transfer, which costs shall be reimbursed to Tenant before Landlord shall be entitled to any profits as set forth above. Such transfer costs shall include all reasonable and customary expenses directly incurred by Tenant attributable to the Transfer, including without limitation brokerage fees, legal fees, construction costs, and Landlord's review fee.

(e) The sale of all or substantially all of the assets of Tenant (other than bulk sales in the ordinary course of business), the merger or consolidation of Tenant, the sale of Tenant's capital stock, or any other direct or indirect change of control of Tenant, including, without limitation, change of control of Tenant's parent company or a merger by Tenant or its parent company, shall be deemed a Transfer within the meaning and provisions of this Article. Notwithstanding the foregoing, Tenant may assign this Lease to a successor to Tenant by merger, consolidation or the purchase of substantially all of Tenant's assets, or assign this Lease or sublet all or a portion of the Premises to an Affiliate (defined below), without the consent of Landlord but subject to the provisions of Section 9.2, provided that all of the following conditions are satisfied (a "**Permitted Transfer**"): (i) Tenant is not then in Default hereunder; (ii) Tenant gives Landlord written notice at least 10 business days before the effective date of such Permitted Transfer if such notice is permitted by law, and if not, as soon thereafter as so permitted by law, and (iii) the successor entity resulting from any merger or consolidation of Tenant or the sale of all or substantially all of the assets of Tenant, has a net worth (computed in accordance with generally accepted accounting principles, except that intangible assets such as goodwill, patents, copyrights, and trademarks shall be excluded in the calculation ("**Net Worth**")) at the time of the Permitted Transfer that is at least equal to the Net Worth of Tenant immediately before the Permitted Transfer. Upon Landlord's written request, Tenant shall provide reasonable information and documentation substantiating subsection (iii) above. If requested by Landlord, Tenant shall use commercially reasonable efforts to cause its successor to sign and deliver to Landlord a commercially reasonable form of assumption agreement. "**Affiliate**" shall mean an entity controlled by, controlling or under common control with Tenant or its parent company.

9.2. EFFECT OF TRANSFER. No subletting or assignment, even with the consent of Landlord, shall relieve Tenant, or any successor-in-interest to Tenant hereunder, of its obligation to pay rent and to perform all its other obligations under this Lease. Each assignee, other than Landlord, shall be deemed to assume all obligations of Tenant under this Lease and shall be liable jointly and severally with Tenant for the payment of all rent, and for the due performance of all of Tenant's obligations, under this Lease. Such joint and several liability shall not be discharged or impaired by any subsequent modification or extension of this Lease. Consent by Landlord to one or more transfers shall not operate as a waiver or estoppel to the future enforcement by Landlord of its rights under this Lease.

9.3. SUBLEASE REQUIREMENTS. Any sublease, license, concession or other occupancy agreement entered into by Tenant shall be subordinate and subject to the provisions of this Lease, and if this Lease is terminated during the term of any such agreement, Landlord shall have the right to: (i) treat such agreement as cancelled and repossess the subject space by any lawful means, or (ii) require that such transferee attorn to and recognize Landlord as its landlord (or licensor, as applicable) under such agreement. Landlord shall not, by reason of such attornment or the collection of sublease rentals, be deemed liable to the subtenant for the performance of any of Tenant's obligations under the sublease. If Tenant is in Default (hereinafter defined), Landlord is irrevocably authorized to direct any transferee under any such agreement to make all payments under such agreement directly to Landlord (which Landlord shall apply towards Tenant's obligations under this Lease) until such Default is cured. No collection or acceptance of rent by Landlord from any transferee shall be deemed a waiver of any provision of Article 9 of this Lease, an approval of any transferee, or a release of Tenant from any obligation under this Lease, whenever accruing. In no event shall Landlord's enforcement of any provision of this Lease against any transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person.

ARTICLE 10. INSURANCE AND INDEMNITY

10.1. TENANT'S INSURANCE. Tenant, at its sole cost and expense, shall provide and maintain in effect the insurance described in **Exhibit D**. Evidence of that insurance must be delivered to Landlord prior to the Commencement Date.

10.2. LANDLORD'S INSURANCE. Throughout the Term of this Lease, Landlord shall provide the following types of insurance, with or without deductible and in amounts and coverages as may be determined by Landlord in its discretion: property insurance, subject to standard exclusions (such as, but not limited to, earthquake and flood exclusions), covering the Building or Project. In addition, Landlord may, at its election, obtain insurance coverages for such other risks as Landlord or its Mortgagees may from time to time deem appropriate, including earthquake, terrorism and commercial general liability coverage. Landlord shall not be required to carry insurance of any kind on any tenant improvements or Alterations in the Premises installed by Tenant or its contractors or otherwise removable by Tenant (collectively, "**Tenant Installations**"), or on any trade fixtures, furnishings, equipment, interior plate glass, signs or items of personal property in the Premises, and Landlord shall not be obligated to repair or replace any of the foregoing items

should damage occur. All proceeds of insurance maintained by Landlord upon the Building and Project shall be the property of Landlord, whether or not Landlord is obligated to or elects to make any repairs.

10.3. INDEMNITY. Except to the extent caused by the negligence or willful misconduct of Landlord and its trustees, members, principals, beneficiaries, partners, officers, directors, employees, mortgagees and agents (the "Landlord Parties"), Tenant shall indemnify, defend and hold Landlord and Landlord Parties harmless against and from all liabilities, obligations, damages, penalties, claims, actions, costs, charges and expenses, including, without limitation, reasonable attorneys' fees and other professional fees (if and to the extent permitted by law) (collectively referred to as "Losses"), which may be imposed upon, incurred by or asserted against Landlord or any of the Landlord Parties by any third party and arising out of or in connection with any damage or injury occurring in the Premises or any acts or omissions (including violations of law) of Tenant, the Tenant Parties (defined below) or any of Tenant's transferees, contractors or licensees. Except to the extent caused by the negligence or willful misconduct of Tenant or any Tenant Parties, Landlord shall indemnify, defend and hold Tenant, its trustees, members, principals, beneficiaries, partners, officers, directors, employees and agents ("Tenant Parties") harmless against and from all Losses which may be imposed upon, incurred by or asserted against Tenant or any of the Tenant Parties by any third party and arising out of or in connection with the acts or omissions (including violations of law) of Landlord or the Landlord Parties. The provisions of this Section 10.3 shall survive the expiration or sooner termination of this Lease with respect to any Losses arising in connection with any event occurring prior to such expiration or termination.

10.4. LANDLORD'S NONLIABILITY. Unless caused by the negligence or intentional misconduct of Landlord, its agents, employees or contractors but subject to Section 10.5 below, Landlord shall not be liable to Tenant, its employees, agents and invitees, and Tenant hereby waives all claims against Landlord, its employees and agents for loss of or damage to any property, or any injury to any person, resulting from any condition including, but not limited to, acts or omissions (criminal or otherwise) of third parties and/or other tenants of the Project, or their agents, employees or invitees, fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak or flow from or into any part of the Premises or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning, electrical works or other fixtures in the Building, whether the damage or injury results from conditions arising in the Premises or in other portions of the Building. It is understood that any such condition may require the temporary evacuation or closure of all or a portion of the Building. Should Tenant elect to receive any service from a concessionaire, licensee or third party tenant of Landlord, Tenant shall not seek recourse against Landlord for any breach or liability of that service provider. Notwithstanding anything to the contrary contained in this Lease, in no event shall Landlord be liable for Tenant's loss or interruption of business or income (including without limitation, Tenant's consequential damages, lost profits or opportunity costs), or for interference with light or other similar intangible interests.

10.5. WAIVER OF SUBROGATION. Landlord and Tenant each hereby waives all rights of recovery against the other on account of loss and damage occasioned to the property of such waiving party to the extent that the waiving party is entitled to proceeds for such loss and damage under any property insurance policies carried or otherwise required to be carried by this Lease; provided however, that the foregoing waiver shall not apply to the extent of Tenant's obligation to pay deductibles under any such policies and this Lease. By this waiver it is the intent of the parties that neither Landlord nor Tenant shall be liable to any insurance company (by way of subrogation or otherwise) insuring the other party for any loss or damage insured against under any property insurance policies, even though such loss or damage might be occasioned by the negligence of such party, its agents, employees, contractors or invitees. The foregoing waiver by Tenant shall also inure to the benefit of Landlord's management agent for the Building.

ARTICLE 11. DAMAGE OR DESTRUCTION

11.1. RESTORATION.

(a) If the Building of which the Premises are a part is damaged as the result of an event of casualty, then subject to the provisions below, Landlord shall repair that damage as soon as reasonably possible unless Landlord reasonably determines that: (i) the Premises have been materially damaged and there is less than 1 year of the Term remaining on the date of the casualty; (ii) any Mortgagee (defined in Section 13.1) requires that the insurance proceeds be applied to the payment of the mortgage debt; or (iii) proceeds necessary to pay the full cost of the repair are not available from Landlord's insurance, including without limitation earthquake insurance. Should Landlord elect not to repair the damage for one of the preceding reasons, Landlord shall promptly thereafter so notify Tenant in the "Casualty Notice" (as defined below), and this Lease shall terminate as of the date of delivery of that notice.

(b) As soon as reasonably practicable following the casualty event but not later than 60 days thereafter, Landlord shall notify Tenant in writing ("**Casualty Notice**") of Landlord's election, if applicable, to terminate this Lease. If this Lease is not so terminated, the Casualty Notice shall set forth the anticipated period for repairing the casualty damage. If the anticipated repair period exceeds 180 days and if either (i) the damage is so extensive as to reasonably prevent Tenant's substantial use and enjoyment of any material portion of the Premises, or (ii) the casualty occurs during the final year of the Term, then either party may elect to terminate this Lease by written notice to the other within 10 days following delivery of the Casualty Notice.

(c) In the event that neither Landlord nor Tenant terminates this Lease pursuant to Section 11.1(b), Landlord shall repair all material damage to the Premises or the Building as soon as reasonably possible and this Lease shall continue in effect for the remainder of the Term. Upon notice from Landlord, Tenant shall assign or endorse over to Landlord (or to any party designated by Landlord) all property insurance proceeds payable to Tenant under Tenant's insurance with respect to any Tenant Installations; provided if the estimated cost to repair such Tenant Installations exceeds the amount of insurance proceeds received by Landlord from Tenant's insurance carrier, the excess cost of such repairs shall be paid by Tenant to Landlord prior to Landlord's commencement of repairs. Within 30 days of demand, Tenant shall also pay Landlord for any additional excess costs that are reasonably determined during the performance of the repairs to such Tenant Installations to be necessary to complete such repairs.

(d) From and after the 3rd business day following the casualty event, the rental (Basic Rent and Tenant's Share of Operating Expenses) to be paid under this Lease shall be abated in the same proportion that the Floor Area of the Premises that is rendered unusable by the damage from time to time bears to the total Floor Area of the Premises.

(e) Notwithstanding the provisions of subsections (a), (b) and (c) of this Section 11.1, but subject to Section 10.5, Tenant shall not be entitled to rental abatement or termination rights, to the extent the damage is due to the fault or neglect of Tenant or its employees, subtenants, contractors, invitees or representatives. In addition, the provisions of this Section 11.1 shall not be deemed to require Landlord to repair any Tenant Installations, fixtures and other items that Tenant is obligated to insure pursuant to **Exhibit D** or under any other provision of this Lease.

11.2. LEASE GOVERNS. Tenant agrees that the provisions of this Lease, including without limitation Section 11.1, shall govern any damage or destruction and shall accordingly supersede any contrary statute or rule of law. to the extent such law may be superseded by contract.

ARTICLE 12. EMINENT DOMAIN

Either party may terminate this Lease if any material part of the Premises is taken or condemned for any public or quasi-public use under Law, by eminent domain or private purchase in lieu thereof (a "**Taking**"). Landlord shall also have the right to terminate this Lease if there is a Taking of any portion of the Building or Project which would have a material adverse effect on Landlord's ability to profitably operate the remainder of the Building. The termination shall be effective as of the effective date of any order granting possession to, or vesting legal title in, the condemning authority. If this Lease is not terminated, Basic Rent and Tenant's Share of Operating Expenses shall be appropriately adjusted to account for any reduction in the square footage of the Building or Premises. All compensation awarded for a Taking shall be the property of Landlord and the right to receive compensation or proceeds in connection with a Taking are expressly waived by Tenant; provided, however, Tenant may file a separate claim for Tenant's personal property and Tenant's reasonable relocation expenses. If only a part of the Premises is subject to a Taking and this Lease is not terminated, Landlord, with reasonable diligence, will restore the remaining portion of the Premises as nearly as practicable to the condition immediately prior to the Taking. Tenant agrees that the provisions of this Lease shall govern any Taking and shall accordingly supersede any contrary statute or rule of law.

ARTICLE 13. SUBORDINATION; ESTOPPEL CERTIFICATE

13.1. SUBORDINATION. Tenant accepts this Lease subject and subordinate to any mortgage(s), deed(s) of trust, ground lease(s) or other lien(s) now or subsequently arising upon the Premises, the Building or the Project, and to renewals, modifications, refinancings and extensions thereof (collectively referred to as a "**Mortgage**"). The party having the benefit of a Mortgage shall be referred to as a "**Mortgagee**". This clause shall be self-operative, but upon request from a Mortgagee, Tenant shall execute a commercially reasonable subordination and attornment agreement in favor of the Mortgagee, provided such agreement provides a non-disturbance covenant benefiting Tenant. Alternatively, a Mortgagee shall have the right at any time to subordinate its Mortgage to this Lease. Upon request, Tenant, without charge, shall attorn to any successor to Landlord's interest in this Lease in the event of a foreclosure of any mortgage. Tenant agrees that any purchaser at a foreclosure sale or lender taking title under a deed in lieu of foreclosure shall not be responsible for any act or omission of a prior landlord, shall not be subject to any offsets or defenses Tenant may have against a prior landlord, and shall not be liable for the return of the Security Deposit not actually recovered by such purchaser nor bound by any rent paid in advance of the calendar month in which the transfer of title occurred; provided that the foregoing shall not release the applicable prior landlord from any liability for those obligations. Tenant acknowledges that Landlord's Mortgagees and their successors-in-interest are intended third party beneficiaries of this Section 13.1.

13.2. ESTOPPEL CERTIFICATE. Tenant shall, within 10 business days after receipt of a written request from Landlord, execute and deliver a commercially reasonable estoppel certificate in favor of those parties as are reasonably requested by Landlord (including a Mortgagee or a prospective purchaser of the Building or the Project).

ARTICLE 14. DEFAULTS AND REMEDIES

14.1. TENANT'S DEFAULTS. In addition to any other event of default set forth in this Lease, the occurrence of any one or more of the following events shall constitute a "**Default**" by Tenant:

(a) The failure by Tenant to make any payment of Rent required to be made by Tenant, as and when due, where the failure continues for a period of 5 business days after Tenant's receipt of written notice from Landlord to Tenant. The term "**Rent**" as used in this Lease shall be deemed to mean the Basic Rent and all other sums required to be paid by Tenant to Landlord pursuant to the terms of this Lease.

(b) The assignment, sublease, encumbrance or other Transfer of the Lease by Tenant, either voluntarily or by operation of law, whether by judgment, execution, transfer by intestacy or testacy, or other means, without the prior written consent of Landlord in violation of Article 9 of this Lease.

(c) The discovery by Landlord that any financial statement provided by Tenant, or by any affiliate, successor or guarantor of Tenant, was materially false.

(d) Except where a specific time period is otherwise set forth for Tenant's performance in this Lease (in which event the failure to perform by Tenant within such time period shall be a Default), the failure or inability by Tenant to observe or perform any of the covenants or provisions of this Lease to be observed or performed by Tenant, other than as specified in any other subsection of this Section 14.1, where the failure continues for a period of 30 days after written notice from Landlord to Tenant. However, if the nature of the failure is such that more than 30 days are reasonably required for its cure, then Tenant shall not be deemed to be in Default if Tenant commences the cure within 30 days, and thereafter diligently pursues the cure to completion.

The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by law, and Landlord shall not be required to give any additional notice under California Code of Civil Procedure Section 1161, or any successor statute, in order to be entitled to commence an unlawful detainer proceeding.

14.2. LANDLORD'S REMEDIES.

(a) Upon the occurrence of any Default by Tenant, then in addition to any other remedies available to Landlord, Landlord may exercise the following remedies:

(i) Landlord may terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. Such termination shall not affect any accrued obligations of Tenant under this Lease. Upon termination, Landlord shall have the right to reenter the Premises and remove all persons and property. Landlord shall also be entitled to recover from Tenant:

(1) The worth at the time of award of the unpaid Rent which had been earned at the time of termination;

(2) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such loss that Tenant proves could have been reasonably avoided;

(3) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such loss that Tenant proves could be reasonably avoided;

(4) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result from Tenant's default, including, but not limited to, the cost of recovering possession of the Premises, commissions and other expenses of reletting, including necessary repair, renovation, improvement and alteration of the Premises for a new tenant, reasonable attorneys' fees, and any other reasonable costs; and

(5) At Landlord's election, all other amounts in addition to or in lieu of the foregoing as may be permitted by law. Any sum, other than Basic Rent, shall be computed on the basis of the average monthly amount accruing during the 24 month period immediately prior to Default, except that if it becomes necessary to compute such rental before the 24 month period has occurred, then the computation shall be on the basis of the average monthly amount during the shorter period. As used in subparagraphs (1) and (2) above, the "worth at the time of award" shall be computed by allowing interest at the rate of 10% per annum. As used in subparagraph (3) above, the "worth at the time of award" shall be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%.

(ii) Landlord may elect not to terminate Tenant's right to possession of the Premises, in which event Landlord may continue to enforce all of its rights and remedies under this Lease, including the right to collect all rent as it becomes due. Efforts by the Landlord to maintain, preserve or relet the Premises, or the appointment of a receiver to protect the Landlord's interests under this Lease, shall not constitute a termination of the Tenant's right to possession of the Premises. In the event that Landlord elects to avail itself of the remedy provided by this subsection (ii), Landlord shall not unreasonably withhold its

consent to an assignment or subletting of the Premises subject to the reasonable standards for Landlord's consent as are contained in this Lease.

(b) The various rights and remedies reserved to Landlord in this Lease or otherwise shall be cumulative and, except as otherwise provided by California law, Landlord may pursue any or all of its rights and remedies at the same time. No delay or omission of Landlord to exercise any right or remedy shall be construed as a waiver of the right or remedy or of any breach or Default by Tenant. The acceptance by Landlord of rent shall not be a (i) waiver of any preceding breach or Default by Tenant of any provision of this Lease, other than the failure of Tenant to pay the particular rent accepted, regardless of Landlord's knowledge of the preceding breach or Default at the time of acceptance of rent, or (ii) a waiver of Landlord's right to exercise any remedy available to Landlord by virtue of the breach or Default. The acceptance of any payment from a debtor in possession, a trustee, a receiver or any other person acting on behalf of Tenant or Tenant's estate shall not waive or cure a Default under Section 14.1. No payment by Tenant or receipt by Landlord of a lesser amount than the rent required by this Lease shall be deemed to be other than a partial payment on account of the earliest due stipulated rent, nor shall any endorsement or statement on any check or letter be deemed an accord and satisfaction and Landlord shall accept the check or payment without prejudice to Landlord's right to recover the balance of the rent or pursue any other remedy available to it. Tenant hereby waives any right of redemption or relief from forfeiture under California Code of Civil Procedure Section 1174 or 1179, or under any successor statute, in the event this Lease is terminated by reason of any Default by Tenant. No act or thing done by Landlord or Landlord's agents during the Term shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender shall be valid unless in writing and signed by Landlord. No employee of Landlord or of Landlord's agents shall have any power to accept the keys to the Premises prior to the termination of this Lease, and the delivery of the keys to any employee shall not operate as a termination of the Lease or a surrender of the Premises.

14.3. LATE PAYMENTS. Any Rent due under this Lease that is not paid to Landlord within 5 days of the date when due shall bear interest on the unpaid portion at 10% per annum from the date due until fully paid. The payment of interest shall not cure any Default by Tenant under this Lease. In addition, Tenant acknowledges that the late payment by Tenant to Landlord of rent will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult and impracticable to ascertain. Those costs may include, but are not limited to, administrative, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any ground lease, mortgage or trust deed covering the Premises. Accordingly, if any rent due from Tenant shall not be received by Landlord or Landlord's designee within 5 days after the date due, then Tenant shall pay to Landlord, in addition to the interest provided above, a late charge for each delinquent payment equal to the greater of (i) 5% of that delinquent payment or (ii) \$100.00. Acceptance of a late charge by Landlord shall not constitute a waiver of Tenant's Default with respect to the overdue amount, nor shall it prevent Landlord from exercising any of its other rights and remedies. Notwithstanding the foregoing, Landlord shall waive the late fee set forth above the first time that a late payment occurs during any calendar year during the Term.

14.4. RIGHT OF LANDLORD TO PERFORM. If Tenant is in Default of any of its obligations under the Lease, Landlord shall have the right to perform such obligations. Tenant shall reimburse Landlord for the cost of such performance upon receipt of invoice together with an administrative charge equal to 10% of the cost of the work performed by Landlord.

14.5. DEFAULT BY LANDLORD. Landlord shall not be deemed to be in default in the performance of any obligation under this Lease unless and until it has failed to perform the obligation within 30 days after written notice by Tenant to Landlord specifying in reasonable detail the nature and extent of the failure; provided, however, that if the nature of Landlord's obligation is such that more than 30 days are required for its performance, then Landlord shall not be deemed to be in default if it commences performance within the 30 day period and thereafter diligently pursues the cure to completion. Tenant hereby waives any right to terminate or rescind this Lease as a result of any default by Landlord hereunder or any breach by Landlord of any promise or inducement relating hereto, and Tenant agrees that its remedies shall be limited to a suit for actual damages and/or injunction and shall in no event include any consequential damages, lost profits or opportunity costs.

14.6. EXPENSES AND LEGAL FEES. Should either Landlord or Tenant bring any action in connection with this Lease, the prevailing party shall be entitled to recover as a part of the action its reasonable attorneys' fees, and all other reasonable costs. The prevailing party for the purpose of this paragraph shall be determined by the trier of the facts.

14.7. WAIVER OF JURY TRIAL/JUDICIAL REFERENCE.

(a) **LANDLORD AND TENANT EACH ACKNOWLEDGES THAT IT IS AWARE OF AND HAS HAD THE ADVICE OF COUNSEL OF ITS CHOICE WITH RESPECT TO ITS RIGHT TO TRIAL BY JURY, AND EACH PARTY DOES HEREBY EXPRESSLY AND KNOWINGLY WAIVE AND RELEASE ALL SUCH RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER (AND/OR AGAINST ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, OR SUBSIDIARY OR AFFILIATED ENTITIES) ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE.**

(b) In the event that the jury waiver provisions of Section 14.7(a) are not enforceable under California law, then, unless otherwise agreed to by the parties, the provisions of this Section 14.7(b) shall apply. Landlord and Tenant agree that any disputes arising in connection with this Lease (including but not limited to a determination of any and all of the issues in such dispute, whether of fact or of law) shall be resolved (and a decision shall be rendered) by way of a general reference as provided for in Part 2, Title 8, Chapter 6 (§§ 638 et. seq.) of the California Code of Civil Procedure, or any successor California statute governing resolution of disputes by a court appointed referee. Nothing within this Section 14.7 shall apply to an unlawful detainer action.

14.8. SATISFACTION OF JUDGMENT. The obligations of Landlord do not constitute the personal obligations of the individual partners, trustees, directors, officers, members or shareholders of Landlord or its constituent partners or members (each an "Individual"). Should Tenant recover a money judgment against Landlord, such judgment shall be satisfied only from the interest of Landlord in the Project and out of the rent or other income from such property receivable by Landlord, and no action for any deficiency may be sought or obtained by Tenant from any Individual.

ARTICLE 15. END OF TERM

15.1. HOLDING OVER. If Tenant holds over for any period after the Expiration Date (or earlier termination of the Term) without the prior written consent of Landlord, such tenancy shall constitute a tenancy at sufferance only and a Default by Tenant; such holding over with the prior written consent of Landlord shall constitute a month-to-month tenancy commencing on the 1st day following the termination of this Lease and terminating 30 days following delivery of written notice of termination by either Landlord or Tenant to the other. In either of such events, possession shall be subject to all of the terms of this Lease, except that the monthly rental shall be 150% of the total monthly rental for the month immediately preceding the date of termination, subject to Landlord's right to modify same upon 30 days notice to Tenant. The acceptance by Landlord of monthly hold-over rental in a lesser amount shall not constitute a waiver of Landlord's right to recover the full amount due unless otherwise agreed in writing by Landlord. If Tenant fails to surrender the Premises upon the expiration of this Lease despite demand to do so by Landlord, Tenant shall indemnify and hold Landlord harmless from all loss or liability, including without limitation, any claims made by any succeeding tenant relating to such failure to surrender. The foregoing provisions of this Section 15.1 are in addition to and do not affect Landlord's right of re-entry or any other rights of Landlord under this Lease or at law.

15.2. SURRENDER OF PREMISES; REMOVAL OF PROPERTY. Upon the Expiration Date or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the Premises to Landlord in as good order, condition and repair as when received or as hereafter may be improved by Landlord or Tenant, reasonable wear and tear and repairs which are Landlord's obligation excepted, and shall remove all wallpapering, voice and/or data transmission cabling installed by or for Tenant and Required Removables, together with all personal property and debris, and shall perform all work required under Section 7.3 of this Lease. If Tenant shall fail to comply with the provisions of this Section 15.2, Landlord may effect the removal and/or make any repairs, and the cost to Landlord shall be additional rent payable by Tenant upon receipt of invoice.

ARTICLE 16. PAYMENTS AND NOTICES

All sums payable by Tenant to Landlord shall be paid, without deduction or offset, in lawful money of the United States to Landlord at its address set forth in Item 12 of the Basic Lease Provisions, or at any other place as Landlord may designate in writing. Unless this Lease expressly provides otherwise, as for example in the payment of rent pursuant to Section 4.1, all payments shall be due and payable within 30 days after receipt of invoice. All payments requiring proration shall be prorated on the basis of the number of days in the pertinent calendar month or year, as applicable. Any notice, election, demand, consent, approval or other communication to be given or other document to be delivered by either party to the other may be delivered to the other party, at the address set forth in Item 12 of the Basic Lease Provisions, by personal service, or by any courier or "overnight" express mailing service. Either party may, by written notice to the other, served in the manner provided in this Article, designate a different address. The refusal to accept delivery of a notice, or the inability to deliver the notice (whether due to a change of address for which notice was not duly given or other good reason), shall be deemed delivery and receipt of the notice as of the date of attempted delivery. If more than one person or entity is named as Tenant under this Lease, service of any notice upon any one of them shall be deemed as service upon all of them.

ARTICLE 17. RULES AND REGULATIONS

Tenant agrees to comply with the Rules and Regulations attached as **Exhibit E**, and any reasonable and nondiscriminatory amendments, modifications and/or additions as may be adopted and published by written notice to tenants by Landlord for the safety, care, security, good order, or cleanliness of the Premises, Building, Project and/or Common Areas; provided that any change to the Rules and Regulations shall not materially interfere with Tenant's access to or use of the Premises. Landlord shall not be liable to Tenant for any violation of the Rules and Regulations or the breach of any covenant or condition in any lease or any other act or conduct by any other tenant, and the same shall not constitute a constructive eviction hereunder. One or more waivers by Landlord of any breach of the Rules and Regulations by Tenant or by any other

tenant(s) shall not be a waiver of any subsequent breach of that rule or any other. Tenant's failure to keep and observe the Rules and Regulations shall constitute a default under this Lease. In the case of any conflict between the Rules and Regulations and this Lease, this Lease shall be controlling.

ARTICLE 18. BROKER'S COMMISSION

The parties recognize as the broker(s) who negotiated this Lease the firm(s) whose name(s) is (are) stated in Item 10 of the Basic Lease Provisions, and agree that Landlord shall be responsible for the payment of brokerage commissions to those broker(s) unless otherwise provided in this Lease. It is understood that Landlord's Broker represents only Landlord in this transaction and Tenant's Broker (if any) represents only Tenant. Each party warrants that it has had no dealings with any other real estate broker or agent in connection with the negotiation of this Lease, and agrees to indemnify and hold the other party harmless from any cost, expense or liability (including reasonable attorneys' fees) for any compensation, commissions or charges claimed by any other real estate broker or agent employed or claiming to represent or to have been employed by the indemnifying party in connection with the negotiation of this Lease. The foregoing agreement shall survive the termination of this Lease.

ARTICLE 19. TRANSFER OF LANDLORD'S INTEREST

In the event of any transfer of Landlord's interest in the Premises, the transferor shall be automatically relieved of all obligations on the part of Landlord accruing under this Lease from and after the date of the transfer, provided that Tenant is duly notified of the transfer. Any funds held by the transferor in which Tenant has an interest, including without limitation, the Security Deposit, shall be turned over, subject to that interest, to the transferee. No Mortgagee to which this Lease is or may be subordinate shall be responsible in connection with the Security Deposit unless the Mortgagee actually receives the Security Deposit. It is intended that the covenants and obligations contained in this Lease on the part of Landlord shall, subject to the foregoing, be binding on Landlord, its successors and assigns, only during and in respect to their respective successive periods of ownership.

ARTICLE 20. INTERPRETATION

20.1. NUMBER. Whenever the context of this Lease requires, the words "Landlord" and "Tenant" shall include the plural as well as the singular.

20.2. HEADINGS. The captions and headings of the articles and sections of this Lease are for convenience only, are not a part of this Lease and shall have no effect upon its construction or interpretation.

20.3. JOINT AND SEVERAL LIABILITY. If more than one person or entity is named as Tenant, the obligations imposed upon each shall be joint and several and the act of or notice from, or notice or refund to, or the signature of, any one or more of them shall be binding on all of them with respect to the tenancy of this Lease, including, but not limited to, any renewal, extension, termination or modification of this Lease.

20.4. SUCCESSORS. Subject to Sections 13.1 and 22.3 and to Articles 9 and 19 of this Lease, all rights and liabilities given to or imposed upon Landlord and Tenant shall extend to and bind their respective heirs, executors, administrators, successors and assigns. Nothing contained in this Section 20.4 is intended, or shall be construed, to grant to any person other than Landlord and Tenant and their successors and assigns any rights or remedies under this Lease.

20.5. TIME OF ESSENCE. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

20.6. CONTROLLING LAW/VENUE. This Lease shall be governed by and interpreted in accordance with the laws of the State of California. Should any litigation be commenced between the parties in connection with this Lease, such action shall be prosecuted in the applicable State Court of California in the county in which the Building is located.

20.7. SEVERABILITY. If any term or provision of this Lease, the deletion of which would not adversely affect the receipt of any material benefit by either party or the deletion of which is consented to by the party adversely affected, shall be held invalid or unenforceable to any extent, the remainder of this Lease shall not be affected and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

20.8. WAIVER. One or more waivers by Landlord or Tenant of any breach of any term, covenant or condition contained in this Lease shall not be a waiver of any subsequent breach of the same or any other term, covenant or condition. Consent to any act by one of the parties shall not be deemed to render unnecessary the obtaining of that party's consent to any subsequent act. No breach of this Lease shall be deemed to have been waived unless the waiver is in a writing signed by the waiving party.

20.9. INABILITY TO PERFORM. In the event that either party shall be delayed or hindered in or prevented from the performance of any work or in performing any act required under this Lease by reason of any cause beyond the reasonable control of that party, then the performance of the work or the doing of the act shall be excused for the period of the delay and the time for performance shall be extended for a

period equivalent to the period of the delay. The provisions of this Section 20.9 shall not operate to excuse Tenant from the prompt payment of Rent.

20.10. ENTIRE AGREEMENT. This Lease and its exhibits and other attachments cover in full each and every agreement of every kind between the parties concerning the Premises, the Building, and the Project, and all preliminary negotiations, oral agreements, understandings and/or practices, except those contained in this Lease, are superseded and of no further effect. Tenant waives its rights to rely on any representations or promises made by Landlord or others which are not contained in this Lease. No verbal agreement or implied covenant shall be held to modify the provisions of this Lease, any statute, law, or custom to the contrary notwithstanding.

20.11. QUIET ENJOYMENT. Upon the observance and performance of all the covenants, terms and conditions on Tenant's part to be observed and performed, and subject to the other provisions of this Lease, Tenant shall have the right of quiet enjoyment and use of the Premises for the Term without hindrance or interruption by Landlord or any other person claiming by or through Landlord.

20.12. SURVIVAL. All covenants of Landlord or Tenant which reasonably would be intended to survive the expiration or sooner termination of this Lease, including without limitation any warranty or indemnity hereunder, shall so survive and continue to be binding upon and inure to the benefit of the respective parties and their successors and assigns.

ARTICLE 21. EXECUTION AND RECORDING

21.1. COUNTERPARTS; DIGITAL SIGNATURES. This Lease may be executed in one or more counterparts, each of which shall constitute an original and all of which shall be one and the same agreement. The parties agree to accept a digital image (including but not limited to an image in the form of a PDF, JPEG, GIF file, or other e-signature) of this Lease, if applicable, reflecting the execution of one or both of the parties, as a true and correct original.

21.2. CORPORATE AND PARTNERSHIP AUTHORITY. If Tenant is a corporation, limited liability company or partnership, each individual executing this Lease on behalf of the entity represents and warrants that such individual is duly authorized to execute and deliver this Lease and that this Lease is binding upon the corporation, limited liability company or partnership in accordance with its terms.

21.3. EXECUTION OF LEASE; NO OPTION OR OFFER. The submission of this Lease to Tenant shall be for examination purposes only, and shall not constitute an offer to or option for Tenant to lease the Premises. Execution of this Lease by Tenant and its return to Landlord shall not be binding upon Landlord, notwithstanding any time interval, until Landlord has in fact executed and delivered this Lease to Tenant, it being intended that this Lease shall only become effective upon execution by Landlord and delivery of a fully executed counterpart to Tenant.

21.4. RECORDING. Tenant shall not record this Lease without the prior written consent of Landlord. Tenant, upon the request of Landlord, shall execute and acknowledge a "short form" memorandum of this Lease for recording purposes.

21.5. AMENDMENTS. No amendment or mutual termination of this Lease shall be effective unless in writing signed by authorized signatories of Tenant and Landlord, or by their respective successors in interest. No actions, policies, oral or informal arrangements, business dealings or other course of conduct by or between the parties shall be deemed to modify this Lease in any respect.

21.6. BROKER DISCLOSURE. By the execution of this Lease, each of Landlord and Tenant hereby acknowledge and confirm (a) receipt of a copy of a Disclosure Regarding Real Estate Agency Relationship conforming to the requirements of California Civil Code 2079.16, and (b) the agency relationships specified in Section 10 of the Basic Lease Provisions, which acknowledgement and confirmation is expressly made for the benefit of Tenant's Broker identified in Section 10 of the Basic Lease Provisions. If there is no Tenant's Broker so identified in Section 10 of the Basic Lease Provisions, then such acknowledgement and confirmation is expressly made for the benefit of Landlord's Broker. By the execution of this Lease, Landlord and Tenant are executing the confirmation of the agency relationships set forth in Section 10 of the Basic Lease Provisions.

ARTICLE 22. MISCELLANEOUS

22.1. NONDISCLOSURE OF LEASE TERMS. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Except to the extent disclosure is required by law, Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal and space-planning consultants, provided, however, that Tenant may disclose the terms to prospective subtenants or assignees under this Lease or pursuant to legal requirement.

22.2. TENANT'S FINANCIAL STATEMENTS. Tenant shall during the Term furnish Landlord not more than one (1) time per calendar year with current annual financial statements accurately (in all material respects) reflecting Tenant's financial condition upon written request from Landlord within 10 business days

following Landlord's request; provided, however, that so long as Tenant is a publicly traded corporation on a nationally recognized stock exchange, the foregoing obligation to deliver the statements shall be waived.

22.3. MORTGAGEE PROTECTION. No act or failure to act on the part of Landlord which would otherwise entitle Tenant to be relieved of its obligations hereunder or to terminate this Lease shall result in such a release or termination unless (a) Tenant has given notice by registered or certified mail to any Mortgagee of a Mortgage covering the Building whose address has been furnished to Tenant and (b) such Mortgagee is afforded a reasonable opportunity to cure the default by Landlord (which shall in no event be less than 60 days), including, if necessary to effect the cure, time to obtain possession of the Building by power of sale or judicial foreclosure provided that such foreclosure remedy is diligently pursued. Tenant shall comply with any written directions by any Mortgagee to pay Rent due hereunder directly to such Mortgagee without determining whether a default exists under such Mortgagee's Mortgage.

22.4. SDN LIST. Tenant hereby represents and warrants that neither Tenant nor any officer of Tenant (collectively, "**Tenant Parties**") is listed as a Specially Designated National and Blocked Person ("**SDN**") on the list of such persons and entities issued by the U.S. Treasury Office of Foreign Assets Control (OFAC). In the event Tenant or any Tenant Party is or becomes listed as an SDN, Tenant shall be deemed in breach of this Lease and Landlord shall have the right to terminate this Lease immediately upon written notice to Tenant.

LANDLORD:

THE IRVINE COMPANY LLC,
a Delaware limited liability company

TENANT:

AVIAT U.S., INC.,
a Delaware corporation

By: /s/ Steven S. Case
Steven S. Case
Executive Vice President
Office Properties

By: /s/ Ralph Marimon
Printed Name: Ralph Marimon
Title: CFO

By: /s/ Michael T. Bennett
Michael T. Bennett
Senior Vice President, Operations
Office Properties

By: /s/ Kevin Holwell
Printed Name: Kevin Holwell
Title: VP Finance

EXHIBIT A
DESCRIPTION OF PREMISES

Exhibit A

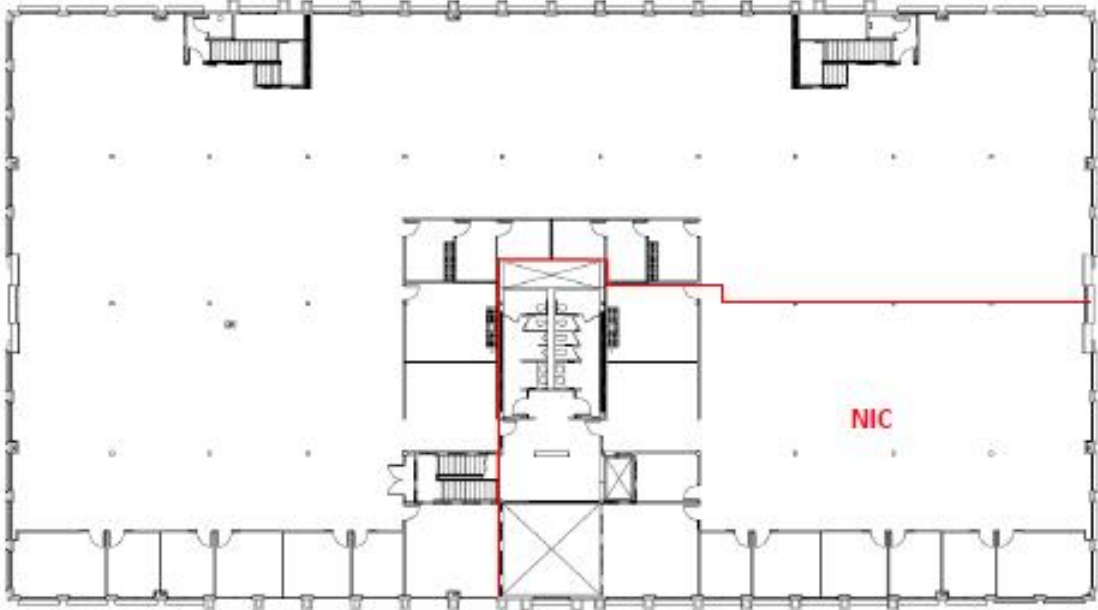


EXHIBIT B

Operating Expenses (Net)

(a) From and after the Commencement Date, Tenant shall pay to Landlord, as additional rent, Tenant's Share of all Operating Expenses, as defined in Section (f) below, incurred by Landlord in the operation of the Building and the Project. The term "**Tenant's Share**" means that portion of any Operating Expenses determined by multiplying the cost of such item by a fraction, the numerator of which is the Floor Area and the denominator of which is the total rentable square footage, as reasonably determined from time to time by Landlord, of (i) the Building, for expenses reasonably determined by Landlord to benefit or relate substantially to the Building rather than the entire Project, and (ii) all or some of the buildings in the Project, for expenses reasonably determined by Landlord to benefit or relate substantially to all or some of the buildings in the Project rather than any specific building. Landlord reserves the right to allocate to the entire Project any Operating Expenses which may benefit or substantially relate to a particular building within the Project in order to maintain greater consistency of Operating Expenses among buildings within the Project. In the event that Landlord determines that the Premises or the Building incur a non-proportional benefit from any expense, or is the non-proportional cause of any such expense, Landlord may allocate a greater percentage of such Operating Expense to the Premises or the Building. In the event that any management and/or overhead fee payable or imposed by Landlord for the management of Tenant's Premises is calculated as a percentage of the rent payable by Tenant and other tenants of Landlord, then the full amount of such management and/or overhead fee which is attributable to the rent paid by Tenant shall be included as an Operating Expense.

(b) Commencing prior to the start of the first full "**Expense Recovery Period**" of the Lease (as defined in Item 7 of the Basic Lease Provisions), and prior to the start of each full or partial Expense Recovery Period thereafter, Landlord shall give Tenant a written estimate of the amount of Tenant's Share of Operating Expenses for the applicable Expense Recovery Period. Tenant shall pay the estimated amounts to Landlord in equal monthly installments, in advance, concurrently with payments of Basic Rent. If Landlord has not furnished its written estimate for any Expense Recovery Period by the time set forth above, Tenant shall continue to pay monthly the estimated Tenant's Share of Operating Expenses in effect during the prior Expense Recovery Period; provided that when the new estimate is delivered to Tenant, Tenant shall, at the next monthly payment date, pay any accrued estimated Tenant's Share of Operating Expenses based upon the new estimate. Landlord may from time to time change the Expense Recovery Period to reflect a calendar year or a new fiscal year of Landlord, as applicable, in which event Tenant's Share of Operating Expenses shall be equitably prorated for any partial year.

(c) Within 180 days after the end of each Expense Recovery Period, Landlord shall furnish to Tenant a statement (a "**Reconciliation Statement**") showing in reasonable detail the actual or prorated Tenant's Share of Operating Expenses incurred by Landlord during such Expense Recovery Period, and the parties shall within 30 days thereafter make any payment or allowance necessary to adjust Tenant's estimated payments of Tenant's Share of Operating Expenses, if any, to the actual Tenant's Share of Operating Expenses as shown by the Reconciliation Statement. Any delay or failure by Landlord in delivering any Reconciliation Statement shall not constitute a waiver of Landlord's right to require Tenant to pay Tenant's Share of Operating Expenses pursuant hereto. Any amount due Tenant shall be credited against installments next coming due under this **Exhibit B**, and any deficiency shall be paid by Tenant together with the next installment. Should Tenant fail to object in writing to Landlord's determination of Tenant's Share of Operating Expenses, or fail to give written notice of its intent to audit Landlord's Operating Expenses pursuant to the provisions of the next succeeding paragraph, within 180 days following delivery of Landlord's Reconciliation Statement, Landlord's determination of Tenant's Share of Operating Expenses for the applicable Expense Recovery Period shall be conclusive and binding on Tenant for all purposes and any future claims by Tenant to the contrary shall be barred.

Provided no Default has occurred and is continuing, Tenant shall have the right to cause a certified public accountant, engaged on a non-contingency fee basis, to audit Operating Expenses by inspecting Landlord's general ledger of expenses not more than once during any Expense Recovery Period. However, to the extent that insurance premiums or any other component of Operating Expenses is determined by Landlord on the basis of an internal allocation of costs utilizing information Landlord in good faith deems proprietary, such expense component shall not be subject to audit so long as it does not exceed the amount per square foot typically imposed by landlords of other first class business parks in the vicinity of the Project. Tenant shall give notice to Landlord of Tenant's intent to audit within 180 days after delivery of Landlord's Reconciliation Statement which sets forth Tenant's Share of Landlord's actual Operating Expenses to Tenant. Landlord shall promptly mail or email the applicable records to Tenant for the audit. If Tenant's audit determines that actual Operating Expenses have been overstated by more than 5%, then subject to Landlord's right to review and/or contest the audit results, Landlord shall reimburse Tenant for the reasonable out-of-pocket costs of such audit. Tenant's rent shall be appropriately adjusted to reflect any overstatement in Operating Expenses. All of the information obtained by Tenant and/or its auditor in connection with such audit, as well as any compromise, settlement, or adjustment reached between Landlord and Tenant as a result thereof, shall be held in strict confidence and, except as may be required pursuant to litigation, shall not be disclosed to any third party, directly or indirectly, by Tenant or its auditor or any of their officers, agents or employees. Landlord may require Tenant's auditor to execute a separate confidentiality agreement affirming the foregoing as a condition precedent to any audit. Notwithstanding the foregoing, Tenant shall have no right of audit

with respect to any Expense Recovery Period unless the total Operating Expenses per square foot for such Expense Recovery Period, as set forth in Landlord's annual Reconciliation Statement, exceed the total Operating Expenses per square foot during the initial Expense Recovery Period during the Term, as increased by the percentage change in the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers, Los Angeles – Riverside – Orange County Area Average, all items (1982-84 = 100) (the "Index"), which change in the Index shall be measured by comparing the Index published for January of the initial Expense Recovery Period during the Term with the Index published for January of the applicable Expense Recovery Period.

(d) Even though this Lease has terminated and the Tenant has vacated the Premises, when the final determination is made of Tenant's Share of Operating Expenses for the Expense Recovery Period in which this Lease terminates, Tenant shall, subject to its audit rights as set forth in subsection (c) above, within 30 days of written notice pay the entire increase over the estimated Tenant's Share of Operating Expenses already paid. Conversely, any overpayment by Tenant shall be rebated by Landlord to Tenant not later than 30 days after such final determination. However, in lieu thereof, Landlord may deliver a reasonable estimate of the anticipated reconciliation amount to Tenant prior to the Expiration Date of the Term, in which event the appropriate party shall fund the amount by the Expiration Date.

(e) If, at any time during any Expense Recovery Period, any one or more of the Operating Expenses are increased to a rate(s) or amount(s) in excess of the rate(s) or amount(s) used in calculating the estimated Tenant's Share of Operating Expenses for the year, then the estimate of Tenant's Share of Operating Expenses may be increased by written notice from Landlord for the month in which such rate(s) or amount(s) becomes effective and for all succeeding months by an amount equal to the estimated amount of Tenant's Share of the increase. Landlord shall give Tenant written notice of the amount or estimated amount of the increase, the month in which the increase will become effective, Tenant's Share thereof and the months for which the payments are due. Tenant shall pay the increase to Landlord as part of the Tenant's monthly payments of estimated expenses as provided in paragraph (b) above, commencing with the month in which effective.

(f) The term "**Operating Expenses**" shall mean and include all Project Costs, as defined in Section (g) below, and Property Taxes, as defined in Section (h) below.

(g) The term "**Project Costs**" shall mean all expenses of operation, management, repair, replacement and maintenance of the Building and the Project, including without limitation all appurtenant Common Areas (as defined in Section 6.2 of the Lease), and shall include the following charges by way of illustration but not limitation: water and sewer charges; insurance premiums, deductibles, or reasonable premium equivalents or deductible equivalents should Landlord elect to self insure any risk that Landlord is authorized to insure hereunder; license, permit, and inspection fees; light; power; window washing; trash pickup; janitorial services to any interior Common Areas; heating, ventilating and air conditioning; supplies; materials; equipment; tools; reasonable fees for consulting services; access control/security costs, inclusive of the reasonable cost of improvements made to enhance access control systems and procedures; establishment of reasonable reserves for replacement of the roof of the Building; costs incurred in connection with compliance with any laws or changes in laws applicable to the Building or the Project; the cost of any capital improvements or replacements (other than tenant improvements for specific tenants) to the extent of the amortized amount thereof over the useful life of such capital improvements or replacements (or, if such capital improvements or replacements are anticipated to achieve a cost savings as to the Operating Expenses, any shorter estimated period of time over which the cost of the capital improvements or replacements would be recovered from the estimated cost savings) calculated at a market cost of funds, all as determined by Landlord, for each year of useful life or shorter recovery period of such capital expenditure whether such capital expenditure occurs during or prior to the Term; costs associated with the maintenance of an air conditioning, heating and ventilation service agreement, and maintenance of any communications or networked data transmission equipment, conduit, cabling, wiring and related telecommunications facilitating automation and control systems, remote telecommunication or data transmission infrastructure within the Building and/or the Project, and any other maintenance, repair and replacement costs associated with such infrastructure; capital costs associated with a requirement related to demands on utilities by Project tenants, including without limitation the cost to obtain additional voice, data and modem connections; labor; reasonably allocated wages and salaries, fringe benefits, and payroll taxes for administrative and other personnel directly applicable to the Building and/or Project, including both Landlord's personnel and outside personnel; any expense incurred pursuant to Sections 6.1, 6.2, 7.2, 10.2, and **Exhibits C and F** of the Lease; and reasonable overhead and/or management fees for the professional operation of the Project. It is understood and agreed that Project Costs may include competitive charges for direct services (including, without limitation, management and/or operations services) provided by any subsidiary, division or affiliate of Landlord.

(h) The term "**Property Taxes**" as used herein shall include any form of federal, state, county or local government or municipal taxes, fees, charges or other impositions of every kind (whether general, special, ordinary or extraordinary) related to the ownership, leasing or operation of the Premises, Building or Project, including without limitation, the following: (i) all real estate taxes or personal property taxes levied against the Premises, the Building or Project, as such property taxes may be reassessed from time to time; and (ii) other taxes, charges and assessments which are levied with respect to this Lease or to the Building and/or the Project, and any improvements, fixtures and equipment and other property of Landlord located in the Building and/or the Project, (iii) all assessments and fees for public improvements, services, and

facilities and impacts thereon, including without limitation arising out of any Community Facilities Districts, "Mello Roos" districts, similar assessment districts, and any traffic impact mitigation assessments or fees; (iv) any tax, surcharge or assessment which shall be levied in addition to or in lieu of real estate or personal property taxes, and (v) taxes based on the receipt of rent (including gross receipts or sales taxes applicable to the receipt of rent), and (vi) costs and expenses incurred in contesting the amount or validity of any Property Tax by appropriate proceedings. Notwithstanding the foregoing, general net income or franchise taxes imposed against Landlord shall be excluded.

(i) Notwithstanding the foregoing provisions of this Exhibit B, Operating Expenses shall exclude the following:

- (1) All costs and expenses of operation of any child care, health club, restaurants and retail space in the Building;
- (2) The wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-à-vis time spent on matters unrelated to operating and managing the Project; provided that in no event shall Operating Costs include wages and/or benefits attributable to personnel above the level of portfolio property manager or chief engineer;
- (3) Interest on debt or amortization on any Mortgage or Mortgages encumbering the Building;
- (4) All costs relating to activities for the marketing, solicitation and execution or renewal of leases of space in the Project, including, without limitation, broker commissions, accounting and legal fees, advertising, printing costs and brochures, space planning, tenant allowances, leasehold improvements and other tenant concessions;
- (5) Costs associated with the sale or refinancing of the Project, including, without limitation, attorneys' fees, accounting costs, closing costs, consulting or brokerage commissions, origination fees or points, and interest cost or charges;
- (6) Costs associated with the acquisition of the fee, ground lease (including payments due under a ground lease), air rights or development rights with respect to the Project;
- (7) Cost of decorating, redecorating, or tenant installations incurred in connection with preparing rentable space for a new tenant (or retaining a tenant);
- (8) Expenses in connection with services or other benefits which are not provided to Tenant or for which Tenant is charged directly;
- (9) Costs incurred by Landlord for repairs, replacements and/or restoration to or of the Building to the extent that Landlord is actually reimbursed for such costs or for which Landlord is entitled to be reimbursed by insurance or condemnation proceeds or by tenants (other than through Operating Expense pass-through), warrantors or other third persons;
- (10) Costs incurred by Landlord for improvements or replacements (including structural additions), repairs, equipment and tools which are of a "capital" nature and/or which are considered "capital" improvements or replacements under GAAP, except to the extent included in Project Costs by the express terms of Section (g) of this Exhibit B;
- (11) Overhead and profit increments paid to subsidiaries or affiliates of Landlord for services provided to the Building or any other portion of the Project to the extent the same exceeds the costs that would generally be charged for such services if rendered on a competitive basis (based upon a standard of similar office buildings in the general market area of the Premises) by unaffiliated third parties capable of providing such service;
- (12) The cost of alterations of rentable space in the Building leased to Tenant and other tenants;
- (13) Costs arising from the negligence or intentional misconduct of Landlord or its employees, contractors or agents;
- (14) Costs incurred to remove, remedy, contain, or treat any hazardous material, in, on or under the Project (A) before the date of this Lease or (B) caused to occur or be made present at the Project after the date hereof by Landlord or any other tenant of the Project or any other person other than Tenant, its employees, agents, licensees, subtenants or invitees, provided that such hazardous material is of such a nature, at the time it is discovered or reasonably should have been discovered, that a federal, state or municipal governmental authority at that time, would have required the removal of such hazardous material or other remedial or containment action with respect thereto;

(15) Penalties and interest charges as a result of Landlord not paying bills when due or within any grace period;

(16) Ground rent or similar payments to a ground lessor;

(17) Costs related to Landlord's charitable or political contributions;

(18) Attorneys' fees and other costs and expenses incurred in connection with negotiations or disputes with present or prospective tenants or other occupants of the Project, except those attorneys' fees and other costs and expenses incurred in connection with negotiations, disputes or claims relating to items of Operating Expenses, enforcement of rules and regulations of the Project and such other matters relating to the maintenance of standards required of Landlord;

(19) Electric power costs or other utility costs for which any tenant directly contracts with the utility company; and

(20) All costs associated with the operation of the business of the entity which constitutes "Landlord" (as distinguished from the costs of operating, maintaining, repairing, replacing and managing the Building or Project) including, but not limited to, Landlord's or Landlord's managing agent's general corporate overhead and general administrative expenses.

(21) Attorneys' fees and other costs and expenses incurred in connection with negotiations or disputes with present or prospective tenants or other occupants of the Building, except those attorneys' fees and other costs and expenses incurred in connection with negotiations, disputes or claims relating to items of operating expenses, enforcement of rules and regulations of the Building and such other matters relating to the maintenance of standards required of Landlord;

(22) Costs, fines or penalties incurred by Landlord due to the violation by Landlord of any governmental rule or regulation; and

(23) Any cost which another party would compensate or pay (or is legally required to pay) so that Landlord shall not recover any such item of cost more than once.

EXHIBIT C

UTILITIES AND SERVICE

Tenant shall be responsible for and shall pay promptly, directly to the appropriate supplier, all charges for electricity metered to the Premises, telephone, telecommunications service, janitorial service, interior landscape maintenance and all other utilities, materials and services furnished directly to Tenant or the Premises or used by Tenant in, on or about the Premises during the Term, together with any taxes thereon. Landlord shall make a reasonable determination of Tenant's proportionate share of the cost of water, gas, sewer, refuse pickup and any other utilities and services that are not separately metered to the Premises and services, and Tenant shall pay such amount to Landlord, as an item of additional rent, within 10 days after delivery of Landlord's statement or invoice therefor. Alternatively, Landlord may elect to include such cost in the definition of Project Costs in which event Tenant shall pay Tenant's proportionate share of such costs in the manner set forth in Section 4.2. Tenant shall also pay to Landlord as an item of additional rent, within 10 days after delivery of Landlord's statement or invoice therefor, Landlord's "standard charges" (as hereinafter defined, which shall be in addition to the electricity charge paid to the utility provider) for "after hours" usage by Tenant of each HVAC unit servicing the Premises. If the HVAC unit(s) servicing the Premises also serve other leased premises in the Building, "**after hours**" shall mean usage of said unit(s) before 6:00 A.M. or after 6:00 P.M. on Mondays through Fridays, before 9:00 A.M. or after 1:00 P.M. on Saturdays, and all day on Sundays and nationally-recognized holidays, subject to reasonable adjustment of said hours by Landlord. If the HVAC unit(s) serve only the Premises, "**after hours**" shall mean more than 66 hours of usage during any week during the Term. "After hours" usage shall be determined based upon the operation of the applicable HVAC unit during each of the foregoing periods on a "non-cumulative" basis (that is, without regard to Tenant's usage or nonusage of other unit(s) serving the Premises, or of the applicable unit during other periods of the Term). As used herein, "**standard charges**" shall mean the following charges for each hour of "after hours" use (in addition to the applicable electricity charges paid to the utility provider) of the following described HVAC units: (i) \$5.00 per hour for 1-5 ton HVAC units, (ii) \$7.50 per hour for 6-30 ton HVAC units and (iii) \$10.00 per hour for HVAC units of greater than 30 tons.

EXHIBIT D

TENANT'S INSURANCE

The following requirements for Tenant's insurance shall be in effect during the Term, and Tenant shall also cause any subtenant to comply with the requirements. Landlord reserves the right to adopt reasonable nondiscriminatory modifications and additions to these requirements.

1. Tenant shall maintain, at its sole cost and expense, during the entire Term: (i) commercial general liability insurance with respect to the Premises and the operations of Tenant in, on or about the Premises, on a policy form that is at least as broad as Insurance Service Office (ISO) CGL 00 01 (if alcoholic beverages are sold on the Premises, liquor liability shall be explicitly covered), which policy(ies) shall be written on an "occurrence" basis and for not less than \$2,000,000 combined single limit per occurrence for bodily injury, death, and property damage liability; (ii) workers' compensation insurance coverage as required by law, together with employers' liability insurance coverage of at least \$1,000,000 each accident and each disease; (iii) with respect to Alterations constructed by Tenant under this Lease, builder's risk insurance, in an amount equal to the replacement cost of the work; and (iv) insurance against fire, vandalism, malicious mischief and such other additional perils as may be included in a standard "special form" policy, insuring all Alterations, trade fixtures, furnishings, equipment and items of personal property in the Premises, in an amount equal to not less than 90% of their replacement cost (with replacement cost endorsement), which policy shall also include business interruption coverage in an amount sufficient to cover 1 year of loss. In no event shall the limits of any policy be considered as limiting the liability of Tenant under this Lease.

2. All policies of insurance required to be carried by Tenant pursuant to this **Exhibit D** shall be written by insurance companies authorized to do business in the State of California and with a general policyholder rating of not less than "A-" and financial rating of not less than "VIII" in the most current Best's Insurance Report. The deductible or other retained limit under any policy carried by Tenant shall be commercially reasonable, and Tenant shall be responsible for payment of such deductible or retained limit with waiver of subrogation in favor of Landlord. Any insurance required of Tenant may be furnished by Tenant under any blanket policy carried by it or under a separate policy. A certificate of insurance, certifying that the policy has been issued, provides the coverage required by this Exhibit and contains the required provisions, together with endorsements acceptable to Landlord evidencing the waiver of subrogation and additional insured provisions required below, shall be delivered to Landlord prior to the date Tenant is given the right of possession of the Premises. Proper evidence of the renewal of any insurance coverage shall also be delivered to Landlord not less than thirty (30) days prior to the expiration of the coverage. In the event of a loss covered by any policy under which Landlord is an additional insured, Landlord shall be entitled to review a copy of such policy.

3. Tenant's commercial general liability insurance shall contain a provision that the policy shall be primary to and noncontributory with any policies carried by Landlord, together with a provision including Landlord and any other parties in interest designated by Landlord as additional insureds. Tenant's policies described in Subsections 1 (ii), (iii) and (iv) above shall each contain a waiver by the insurer of any right to subrogation against Landlord, its agents, employees, contractors and representatives. Tenant also waives its right of recovery for any deductible or retained limit under same policies enumerated above. All of Tenant's policies shall contain a provision that the insurer will not cancel or change the coverage provided by the policy without first giving Landlord 30 days prior written notice. Tenant shall also name Landlord as an additional insured on any excess or umbrella liability insurance policy carried by Tenant.

NOTICE TO TENANT: IN ACCORDANCE WITH THE TERMS OF THIS LEASE, TENANT MUST PROVIDE EVIDENCE OF THE REQUIRED INSURANCE TO LANDLORD'S MANAGEMENT AGENT PRIOR TO BEING AFFORDED ACCESS TO THE PREMISES.

EXHIBIT E
RULES AND REGULATIONS

This Exhibit sets forth the rules and regulations governing Tenant's use of the Premises leased to Tenant pursuant to the terms, covenants and conditions of the Lease to which this Exhibit is attached and therein made part thereof. In the event of any conflict or inconsistency between this Exhibit and the Lease, the Lease shall control. Whenever Landlord's approval or consent is required in these or any future rules and regulations, Landlord shall not unreasonably withhold, condition or delay such approval or consent.

1. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall, which may appear unsightly from outside the Premises.

2. The walls, walkways, sidewalks, entrance passages, elevators, stairwells, courts and vestibules shall not be obstructed or used for any purpose other than ingress and egress of pedestrian travel to and from the Premises, and shall not be used for smoking, loitering or gathering, or to display, store or place any merchandise, equipment or devices, or for any other purpose. The walkways, sidewalks, entrance passageways, courts, vestibules and roof are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the reasonable judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom Tenant normally deals in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. Smoking is permitted outside the Building and within the Project only in areas designated by Landlord. Neither Tenant nor its employees, agents, contractors, invitees or licensees shall be permitted to bring any firearm, whether loaded or unloaded, into the Project at any time. No tenant or employee or invitee or agent of any tenant shall be permitted upon the roof of the Building without prior written approval from Landlord.

3. No awnings or other projection shall be attached to the outside walls of the Building. No security bars or gates, curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises without the prior written consent of Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without the express written consent of Landlord.

4. Tenant shall not mark, nail, paint, drill into, or in any way deface any part of the Premises or the Building except to affix standard pictures or other wall hangings on the interior walls of the premises so long as they are not visible from the exterior of the building. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved by Landlord in writing. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by Tenant.

5. The toilet rooms, urinals, wash bowls and other plumbing apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. Any pipes or tubing used by Tenant to transmit water to an appliance or device in the Premises must be made of copper or stainless steel, and in no event shall plastic tubing be used for that purpose. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose employees or invitees, caused it.

6. Landlord shall direct electricians as to the manner and location of any future telephone wiring. No boring or cutting for wires will be allowed without the prior consent of Landlord. The locations of the telephones, call boxes and other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord.

7. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the permitted use of the Premises. No exterior storage shall be allowed at any time without the prior written approval of Landlord. The Premises shall not be used for cooking or washing clothes without the prior written consent of Landlord, or for lodging or sleeping or for any immoral or illegal purposes.

8. Tenant shall not make, or permit to be made, any unseemly or disturbing noises or disturb or interfere with occupants of this or neighboring buildings or premises or those having business with them, whether by the use of any musical instrument, radio, phonograph, noise, or otherwise. Tenant shall not use, keep or permit to be used, or kept, any foul or obnoxious gas or substance in the Premises or permit or suffer the Premises to be used or occupied in any manner offensive or objectionable to Landlord or other occupants of this or neighboring buildings or premises by reason of any odors, fumes or gases.

9. No animals, except for seeing eye dogs, shall be permitted at any time within the Premises.

10. Tenant shall not use the name of the Building or the Project in connection with or in promoting or advertising the business of Tenant, except as Tenant's address, without the written consent of Landlord. Landlord shall have the right to prohibit any advertising by any Tenant which, in Landlord's reasonable

opinion, tends to impair the reputation of the Project or its desirability for its intended uses, and upon written notice from Landlord any Tenant shall refrain from or discontinue such advertising.

11. Canvassing, soliciting, peddling, parading, picketing, demonstrating or otherwise engaging in any conduct that unreasonably impairs the value or use of the Premises or the Project are prohibited and each Tenant shall cooperate to prevent the same. Landlord shall have full and absolute authority to regulate or prohibit the entrance to the Premises of any vendor, supplier, purveyor, petitioner, proselytizer or other similar person if, in the good faith judgment of Landlord, such person will be involved in general solicitation activities, or the proselytizing, petitioning, or disturbance of other tenants or their customers or invitees, or engaged or likely to engage in conduct which may in Landlord's opinion distract from the use of the Premises for its intended purpose. Notwithstanding the foregoing, Landlord reserves the absolute right and discretion to limit or prevent access to the Buildings by any food or beverage vendor, whether or not invited by Tenant, and Landlord may condition such access upon the vendor's execution of an entry permit agreement which may contain provisions for insurance coverage and/or the payment of a fee to Landlord.

12. No equipment of any type shall be placed on the Premises which in Landlord's reasonable opinion exceeds the load limits of the floor or otherwise threatens the soundness of the structure or improvements of the Building.

13. Regular building hours of operation are from 6:00 AM to 6:00 PM Monday through Friday and 9:00 AM to 1:00 PM on Saturday. No air conditioning unit or other similar apparatus shall be installed or used by any Tenant without the prior written consent of Landlord.

14. The entire Premises, including vestibules, entrances, parking areas, doors, fixtures, windows and plate glass, shall at all times be maintained in a safe, neat and clean condition by Tenant. All trash, refuse and waste materials shall be regularly removed from the Premises by Tenant and placed in the containers at the locations designated by Landlord for refuse collection. All cardboard boxes must be "broken down" prior to being placed in the trash container. All styrofoam chips must be bagged or otherwise contained prior to placement in the trash container, so as not to constitute a nuisance. Pallets must be immediately disposed of by tenant and may not be disposed of in the Landlord provided trash container or enclosures. Pallets may be neatly stacked in an exterior location on a temporary basis (no longer than 5 days) so long as Landlord has provided prior written approval. The burning of trash, refuse or waste materials is prohibited.

15. Tenant shall use at Tenant's cost such pest extermination contractor as Landlord may direct and at such intervals as Landlord may require.

16. All keys for the Premises shall be provided to Tenant by Landlord and Tenant shall return to Landlord any of such keys so provided upon the termination of the Lease. Tenant shall not change locks or install other locks on doors of the Premises, without the prior written consent of Landlord. In the event of loss of any keys furnished by Landlord for Tenant, Tenant shall pay to Landlord the reasonable costs thereof. Upon the termination of its tenancy, Tenant shall deliver to Landlord all the keys to lobby(s), suite(s) and telephone & electrical room(s) which have been furnished to Tenant or which Tenant shall have had made.

17. No person shall enter or remain within the Project while intoxicated or under the influence of liquor or drugs. Landlord shall have the right to exclude or expel from the Project any person who, in the absolute discretion of Landlord, is under the influence of liquor or drugs.

18. The moving of large or heavy objects shall occur only between those hours as may be designated by, and only upon previous written notice to, Landlord, and the persons employed to move those objects in or out of the Building must be reasonably acceptable to Landlord. Without limiting the generality of the foregoing, no freight, furniture or bulky matter of any description shall be received into or moved out of the lobby of the Building or carried in the elevator. The foregoing notwithstanding, standard deliveries that can be brought into the Building via soft wheel dolly through the elevator do not need to be pre-scheduled with the Landlord.

19. Tenant shall not install equipment, such as but not limited to electronic tabulating or computer equipment, requiring electrical or air conditioning service in excess of that to be provided by Landlord under the Lease without prior written consent of Landlord, provided that Tenant may install 18 racks or cabinets of equipment in the Demo room, and server equipment in the IDF room(s), with a dedicated 24 hour HVAC unit. The costs of operating, maintaining and repairing any supplemental air conditioning unit serving only the Premises shall be borne solely by Tenant. Such installation shall be subject to Landlord's prior written approval, at Tenant's sole expense and shall include installation of a separate meter for the operation of the unit. Upon the termination or expiration of this Lease, Tenant will remove the HVAC unit(s) and otherwise restore the Demo and IDF rooms to their original condition, reasonable wear and tear excepted.

20. Landlord may from time to time grant other tenants of the Project individual and temporary variances from these Rules, provided that any variance does not have a material adverse effect on the use and enjoyment of the Premises by Tenant.

21. Landlord reserves the right to reasonably amend or supplement the foregoing Rules and Regulations and to adopt and promulgate additional reasonable rules and regulations applicable to the

Premises. Notice of such rules and regulations and amendments and supplements thereto, if any, shall be given to the Tenant.

EXHIBIT F

PARKING

Tenant shall be entitled to the number of vehicle parking spaces set forth in Item 11 of the Basic Lease Provisions, which spaces shall be unreserved and unassigned, on those portions of the Common Areas designated by Landlord for parking. Tenant shall not use more parking spaces than such number. All parking spaces shall be used only for parking of vehicles no larger than full size passenger automobiles, sport utility vehicles or pickup trucks. Except for routine deliveries by overnight couriers, Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers or invitees to be loaded, unloaded or parked in areas other than those designated by Landlord for such activities. If Tenant permits or allows any of the prohibited activities described above, then Landlord shall have the right, without notice, in addition to such other rights and remedies that Landlord may have, to remove or tow away the vehicle involved and charge the costs to Tenant. Parking within the Common Areas shall be limited to striped parking stalls, and no parking shall be permitted in any driveways, access ways or in any area which would prohibit or impede the free flow of traffic within the Common Areas. There shall be no parking of any vehicles for longer than a forty-eight (48) hour period unless otherwise authorized by Landlord, and vehicles which have been abandoned or parked in violation of the terms hereof may be towed away at the owner's expense. Nothing contained in this Lease shall be deemed to create liability upon Landlord for any damage to motor vehicles of visitors or employees, for any loss of property from within those motor vehicles, or for any injury to Tenant, its visitors or employees, unless ultimately determined to be caused by the sole negligence or willful misconduct of Landlord. Landlord shall have the right to establish, and from time to time amend, and to enforce against all users all reasonable rules and regulations (including the designation of areas for employee parking) that Landlord may deem necessary and advisable for the proper and efficient operation and maintenance of parking within the Common Areas. Landlord shall have the right to construct, maintain and operate lighting facilities within the parking areas; to change the area, level, location and arrangement of the parking areas and improvements therein; to restrict parking by tenants, their officers, agents and employees to employee parking areas; and to do and perform such other acts in and to the parking areas and improvements therein as, in the use of good business judgment, Landlord shall determine to be advisable. Any person using the parking area shall observe all directional signs and arrows and any posted speed limits. In no event shall Tenant interfere with the use and enjoyment of the parking area by other tenants of the Project or their employees or invitees. Parking areas shall be used only for parking vehicles. Washing, waxing, cleaning or servicing of vehicles, or the storage of vehicles for longer than 48-hours, is prohibited unless otherwise authorized by Landlord. Tenant shall be liable for any damage to the parking areas caused by Tenant or Tenant's employees, suppliers, shippers, customers or invitees, including without limitation damage from excess oil leakage. Tenant shall have no right to install any fixtures, equipment or personal property in the parking areas. Tenant shall not assign or sublet any of the vehicle parking spaces, either voluntarily or by operation of law, without the prior written consent of Landlord, except in connection with an authorized assignment of this Lease or subletting of the Premises.

EXHIBIT G

ADDITIONAL PROVISIONS

The following additional provisions shall be binding on Landlord and Tenant:

1. FITNESS CENTER. Landlord currently provides a fitness center in the Building and in a building located at the Project (collectively with any other fitness centers which may be operated from time to time by Landlord in the Project, the "**Fitness Center**"). Provided: (a) Tenant is not in Default under any provision of this Lease, and (b) Tenant's employees execute Landlord's standard waiver of liability form, then Tenant's employees (the "**Fitness Center Users**") shall be entitled to use the Fitness Center on the terms and conditions herein provided. No separate charges shall be assessed to Fitness Center Users for the use of the Fitness Center (with the exception of towel/laundry fees) during the initial Term of this Lease, provided, however, that the costs of operating, maintaining and repairing the Fitness Center shall be included as part of Operating Expenses. The use of the Fitness Center by the Fitness Center Users shall be subject to the reasonable rules and regulations (including rules regarding hours of use) established from time to time by Landlord. Landlord and Tenant acknowledge that the use of the Fitness Center by the Fitness Center Users shall be at their own risk and that the terms and provisions of Section 10.2 of the Lease and shall apply to Tenant and the Fitness Center User's use of the Fitness Center. Tenant acknowledges that the provisions of this Section shall not be deemed to be a representation by Landlord that Landlord shall continuously maintain the Fitness Center (or any other fitness facility) throughout the Term of this Lease, and Landlord shall have the right, at Landlord's sole discretion, to expand, contract, eliminate or otherwise modify the Fitness Center. No expansion, contraction, elimination or modification of the Fitness Center, and no termination of Tenant's or the Fitness Center Users' rights to the Fitness Center shall entitle Tenant to an abatement or reduction in Basic Rent constitute a constructive eviction, or result in an event of default by Landlord under this Lease. Except to the extent of Landlord's gross negligence or willful misconduct, Tenant hereby voluntarily releases, discharges, waives and relinquishes any and all actions or causes of action for personal injury or property damage occurring to Tenant or its employees or agents arising as a result of the use of the Fitness Center, or any activities incidental thereto, wherever or however the same may occur, and further agrees that Tenant will not prosecute any claim for personal injury or property damage against Landlord or any of its officers, agents, servants or employees for any said causes of action. It is the intention of Tenant with respect to the Fitness Center to exempt and relieve Landlord from liability for personal injury or property damage caused by negligence. Tenant's right to use the Fitness Center shall belong solely to Tenant and except for any Transferee under a Permitted Transfer, may not be transferred or assigned without Landlord's prior written consent, which may be withheld by Landlord in Landlord's sole discretion.

2. CONFERENCE ROOM. Landlord currently provides a conference room (the "**Conference Room**") in a building located at the Project, which is capable of accommodating groups of people for use by Building tenants (including Tenant) on a reserved basis. Tenant shall, subject to availability, have the use of the Conference Room subject to Landlord's procedures and charges. The use of the Common Area Conference Room shall be subject to the reasonable rules and regulations (including rules regarding hours of use and priorities for the tenants of the particular building in which a Common Area Conference Room is located, set up and clean up charges, etc.) established from time to time by Landlord for the Common Area Conference Room. Landlord and Tenant acknowledge that the terms and provisions of Section 10.3 (Indemnity) of this Lease shall apply to Tenant's use of the Conference Room. Further, Landlord shall have no liability whatsoever with respect to the existence, condition or availability of any Common Area Conference Room(s) nor shall Landlord have any obligation whatsoever to enforce or make reservations thereof, and Tenant hereby expressly waives all claims against Landlord with respect to the same. No expansion, contraction, elimination, unavailability or modification of the Common Area Conference Room(s), and no termination of or interference with Tenant's rights to the Common Area Conference Room(s), shall entitle Tenant to an abatement or reduction in rent or constitute a constructive eviction or an event of default by Landlord under this Lease.

3. RIGHT TO EXTEND THIS LEASE. Provided that no Default has occurred under any provision of this Lease, and is continuing either at the time of exercise of the extension right granted herein or at the time of the commencement of such extension, and provided further that Tenant is occupying the entire Premises and has not assigned or sublet any of its interest in this Lease, then Tenant may extend the Term of this Lease for one (1) extension period of 36 months. Tenant shall exercise its right to extend the Term by and only by delivering to Landlord, not less than 9 months or more than 12 months prior to the Expiration Date of the Term, Tenant's irrevocable written notice of its commitment to extend (the "**Commitment Notice**"). The Basic Rent payable under the Lease during any extension of the Term shall be determined as provided in the following provisions.

If Landlord and Tenant have not by then been able to agree upon the Basic Rent for the extension of the Term, then not less than 90 days or more than 120 days prior to the Expiration Date of the Term, Landlord shall notify Tenant in writing of the Basic Rent that would reflect the prevailing market rental rate for a 36-month renewal of comparable space in the Project (together with any increases thereof during the extension period) as of the commencement of the extension period ("**Landlord's Determination**"). Should Tenant disagree with the Landlord's Determination, then Tenant shall, not later than 20 days thereafter, notify Landlord in writing of Tenant's determination of those rental terms ("**Tenant's Determination**"). Within 10 days following delivery of the Tenant's Determination, the parties shall attempt to agree on an appraiser to

determine the fair market rental. If the parties are unable to agree in that time, then each party shall designate an appraiser within 10 days thereafter. Should either party fail to so designate an appraiser within that time, then the appraiser designated by the other party shall determine the fair market rental. Should each of the parties timely designate an appraiser, then the two appraisers so designated shall appoint a third appraiser who shall, acting alone, determine the fair market rental for the Premises. Any appraiser designated hereunder shall have an MAI certification with not less than 5 years experience in the valuation of commercial industrial buildings in the vicinity of the Project.

Within 30 days following the selection of the appraiser and such appraiser's receipt of the Landlord's Determination and the Tenant's Determination, the appraiser shall determine whether the rental rate determined by Landlord or by Tenant more accurately reflects the fair market rental rate for the 36-month renewal of the Lease for the Premises, as reasonably extrapolated to the commencement of the extension period. Accordingly, either the Landlord's Determination or the Tenant's Determination shall be selected by the appraiser as the fair market rental rate for the extension period. In making such determination, the appraiser shall consider rental comparables for the Project (provided that if there are an insufficient number of comparables within the Project, the appraiser shall consider rental comparables for similarly improved space owned by Landlord in the vicinity of the Project with appropriate adjustment for location and quality of project), but the appraiser shall not attribute any factor for brokerage commissions in making its determination of the fair market rental rate. At any time before the decision of the appraiser is rendered, either party may, by written notice to the other party, accept the rental terms submitted by the other party, in which event such terms shall be deemed adopted as the agreed fair market rental. The fees of the appraiser(s) shall be borne entirely by the party whose determination of the fair market rental rate was not accepted by the appraiser.

Within 20 days after the determination of the fair market rental, Landlord shall prepare an appropriate amendment to this Lease for the extension period, and provided such amendment is limited to an extension of the Term and does not include additional or different terms to that contained in the original lease, Tenant shall execute and return same to Landlord within 10 days after Tenant's receipt of same. Should the fair market rental not be established by the commencement of the extension period, then Tenant shall continue paying rent at the rate in effect during the last month of the initial Term, and a lump sum adjustment shall be made promptly upon the determination of such new rental.

If Tenant fails to timely exercise the extension right granted herein within the time period expressly set forth for exercise by Tenant in the initial paragraph of this Section, Tenant's right to extend the Term shall be extinguished and the Lease shall automatically terminate as of the expiration date of the Term, without any extension and without any liability to Landlord. Tenant's rights under this Section shall belong solely to Aviat U.S., Inc., a Delaware corporation, or any transferee under a Permitted Transfer, and any attempted assignment or transfer of such rights shall be void and of no force and effect. Tenant shall have no other right to extend the Term beyond the single 36 month extension period created by this Section. Unless agreed to in a writing signed by Landlord and Tenant, any extension of the Term, whether created by an amendment to this Lease or by a holdover of the Premises by Tenant, or otherwise, shall be deemed a part of, and not in addition to, any duly exercised extension period permitted by this Section.

4. RIGHT OF FIRST OFFER. Provided that no Default has occurred under any provision of this Lease, either at the time of the delivery of "Landlord's Notice" or at the time of the delivery of "Tenant's Notice" (as hereinafter defined), Landlord hereby grants Tenant a one-time right ("**First Right**") to lease the contiguous space on the second floor of the Building, which space more particularly described on **Exhibit G-1** attached hereto (the "**First Right Space**"), in accordance with and subject to the provisions of this Section; provided that this First Right shall not be effective until the Commencement Date of this Lease shall occur and shall cease to be effective during the final 12 months of the Term, or the final 12 months of the extended Term if Tenant exercises its extension option set forth in Section 3 of this **Exhibit G**. Except as otherwise provided below, prior to leasing the First Right Space, or any portion thereof, to any other party during the period that this First Right is in effect, Landlord shall give Tenant written notice (the "**Landlord's Notice**") of the basic economic terms including but not limited to the Basic Rent, term, operating expense base, security deposit, and tenant improvement allowance (collectively, the "**Economic Terms**"), upon which Landlord is willing to lease such particular First Right Space to Tenant or to a third party; provided that the Economic Terms shall exclude brokerage commissions and other Landlord payments that do not directly inure to the tenant's benefit. It is understood that should Landlord intend to lease other office space in addition to the First Right Space as part of a single transaction, then Landlord's Notice shall so provide and all such space shall collectively be subject to the following provisions. Within 5 business days after delivery of Landlord's Notice, Tenant must give Landlord written notice (the "**Tenant's Notice**") pursuant to which Tenant shall elect to (i) lease all, but not less than all, of that portion of the First Right Space specified in Landlord's notice (the "**Designated Space**") upon such Economic Terms and the same non-Economic Terms as set forth in this Lease; (ii) refuse to lease the Designated Space, specifying that such refusal is not based upon the Economic Terms, but upon Tenant's lack of need for the Designated Space, in which event this First Right shall terminate as to the Designated Space in its entirety and Landlord may lease the Designated Space upon any terms it deems appropriate; or (iii) refuse to lease the Designated Space, specifying that such refusal is based upon said Economic Terms, in which event Tenant shall also specify revised Economic Terms upon which Tenant shall be willing to lease the Designated Space. In the event that Tenant does not so respond in writing to Landlord's Notice within said period, Tenant shall be deemed to have elected clause (ii) above. Any Tenant's Notice electing either clause (i) or clause (iii) above shall be accompanied by Tenant's then current annual financial statements, inclusive of Tenant's most current balance sheet; and should such

statements reveal that Tenant's net worth has materially decreased since the execution of this Lease, Landlord shall have no obligation to lease the Designated Space to Tenant and may instead lease same to any third party. In the event Tenant's Notice elects clause (iii) above, Landlord may elect to either (x) lease the Designated Space to Tenant upon such revised Economic Terms and the same other non-Economic Terms as set forth in this Lease, or (y) lease the Designated Space to any third party upon Economic Terms which are not materially more favorable to such party than those Economic Terms proposed by Tenant. Should Landlord so elect to lease the Designated Space to Tenant, then Landlord shall promptly prepare and deliver to Tenant an amendment to this Lease consistent with the foregoing, and Tenant shall execute and return same to Landlord within 10 days. Notwithstanding the foregoing, it is understood that Tenant's First Right shall be subject to any extension or expansion rights granted by Landlord prior to the Commencement Date of this Lease to any third party tenant in the Project, as well as to any such rights which may hereafter be granted by Landlord to any third party tenant now or hereafter occupying the First Right Space or any portion thereof, and Landlord shall in no event be obligated to initiate this First Right prior to leasing any portion of the First Right Space to the then-current occupant thereof. Tenant's rights under this Section shall belong solely to Aviat U.S., Inc., a Delaware corporation, or any transferee under a Permitted Transfer, and any attempted assignment or transfer of such rights shall be void and of no force and effect.

5. GOOD WORKING ORDER WARRANTY.

(i) Landlord warrants to Tenant that the windows and seals, fire sprinkler system, lighting, heating, ventilation and air conditioning systems and all plumbing and electrical systems serving the Building and the Premises (collectively, the "Building Systems"), and the roof and structural components of the Building, shall be in good operating condition, and the Premises shall be in broom-clean condition on the Commencement Date. Provided that Tenant shall notify Landlord that the Building Systems are not in good operating condition within 30 days following the Commencement Date, then Landlord shall, except as otherwise provided in this Lease, promptly after receipt of such notice from Tenant setting forth the nature and extent of such noncompliance, rectify same at Landlord's sole cost and expense and not as part of the Operating Expenses described in **Exhibit B** of this Lease.

(ii) Landlord shall correct, repair and/or replace any non-compliance of the Building and/or the Common Areas with all building permits and codes in effect and applicable as of the execution of this Lease, including without limitation, the provisions of Title III of the Americans With Disabilities Act ("**ADA**"). Said costs of compliance shall be Landlord's sole cost and expense and shall not be part of Project Costs; provided that any cost of ADA compliance triggered by the permitting and/or construction of the Tenant Improvements shall be included as part of the "Completion Cost" of the Tenant Improvement Work (as defined in the Work Letter). Landlord shall correct, repair or replace any non-compliance of the Building and the Common Areas with any revisions or amendments to applicable building codes, including the ADA, becoming effective after the execution of this Lease, provided that the amortized cost of such repairs or replacements (amortized over the useful life thereof) shall be included as Project Costs payable by Tenant. All other ADA compliance issues which pertain to the Premises, including without limitation, in connection with Tenant's construction of any Alterations or other improvements in the Premises (and any resulting ADA compliance requirements in the Common Areas if Landlord shall consent to same as more particularly provided in Section 7.3 of this Lease) and the operation of Tenant's business and employment practices in the Premises, shall be the responsibility of Tenant at its sole cost and expense. The repairs, corrections or replacements required of Landlord or of Tenant under the foregoing provisions of this Section shall be made promptly following notice of non-compliance from any applicable governmental agency.

EXHIBIT G-1
FIRST RIGHT SPACE

Exhibit G-1

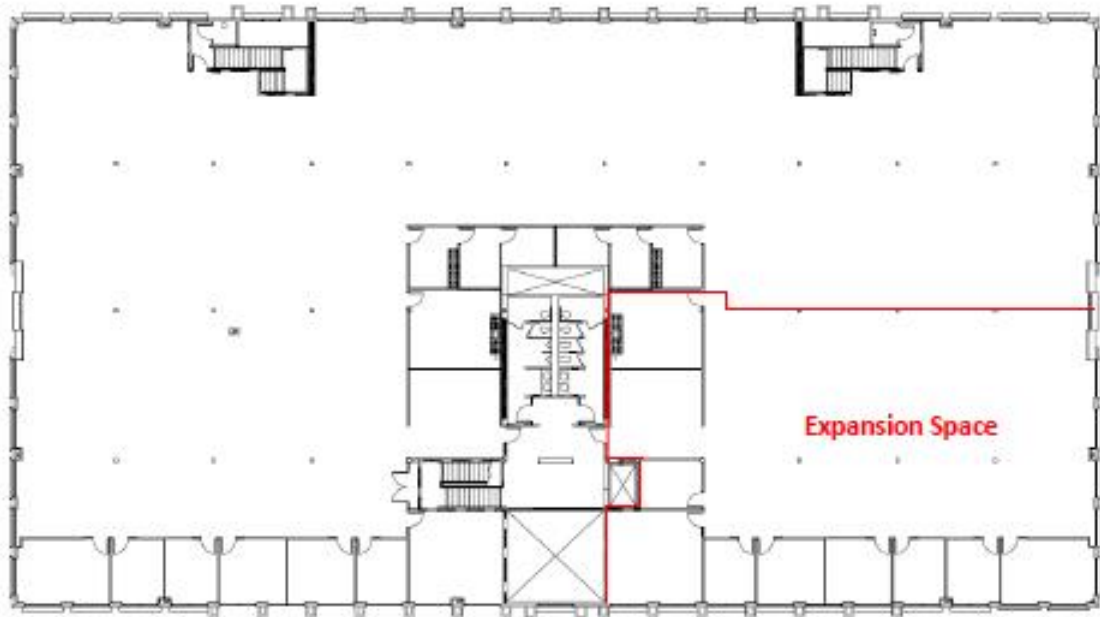


EXHIBIT H
LANDLORD'S DISCLOSURES

NONE

EXHIBIT X

WORK LETTER

DOLLAR ALLOWANCE

PRE-APPROVED PLAN

The tenant improvement work to be contracted for by Landlord hereunder ("**Tenant Improvement Work**") shall consist of the design and construction of all tenant improvements ("**Tenant Improvements**"), including work in place as of the date hereof, required for the Premises pursuant to the approved final Working Drawings and Specifications (as hereinafter defined). All of the Tenant Improvement Work shall be performed by a contractor selected by Landlord and in accordance with the procedures and requirements set forth below.

I. ARCHITECTURAL AND CONSTRUCTION PROCEDURES.

A. Prior to the execution of this Lease, Tenant and Landlord have approved a detailed plan for the Tenant Improvements attached as **Exhibit X-1** to this Work Letter ("**Preliminary Plan**"). To the extent applicable, the build-out of the Tenant Improvements shall include Landlord's building standard tenant improvements, materials and specifications for the Project as set forth in **Schedule I** attached hereto ("**Building Standard Improvements**"), except for those additions or variations to Building Standard Improvements expressly approved by Landlord and noted on the Preliminary Plan (any such addition or variation from the Standard Improvements shall be referred to herein as a "**Non-Standard Improvement**"). Tenant shall approve or provide suggested revisions to the preliminary cost estimate for the Tenant Improvements (the "**Preliminary Cost Estimate**") by signing copies of each or specifying in reasonable detail any suggested revisions thereto as hereinabove provided, and delivering each to Landlord within 5 business days of receipt thereof by Tenant. Landlord shall attempt in good faith to modify the Preliminary Cost Estimate to incorporate Tenant's suggested revisions in a mutually satisfactory manner. In all events, Tenant shall approve in all respects a Preliminary Cost Estimate (as may have been modified as herein provided to incorporate Tenant's suggested revisions) not later than June 15, 2016.

B. Within 5 business days following any request from Landlord or Landlord's architect, Tenant shall provide in writing to Landlord or Landlord's architect all specifications and information requested by Landlord for the preparation of final construction documents and costing, including without limitation Tenant's final selection of paint and floor finishes, complete specifications and locations (including electrical, load and HVAC requirements) of Tenant's equipment, and details of all Non-Standard Improvements (as defined above) which have been approved by Landlord as part of the Preliminary Plan (collectively, "**Programming Information**"). Tenant's failure to provide the Programming Information shall constitute a "Tenant Delay", as defined below. Tenant understands that final construction documents for the Tenant Improvements shall be predicated on the Programming Information, and accordingly that such information must be accurate and complete and that any defects or problems due to incomplete or inaccurate Programming Information shall be the responsibility of the Tenant and that the Landlord shall have no obligation or liability for such defects or problems arising from any incomplete or inaccurate Programming Information. Any delays in the completion of the Tenant Improvements due to incomplete or inaccurate Programming Information shall constitute a Tenant Delay.

C. Following receipt of the Programming Information, Landlord's architect and engineers shall prepare and deliver to Tenant working drawings and specifications for the Tenant Improvements based on the approved Preliminary Plan ("**Working Drawings and Specifications**"), and Landlord's contractor shall prepare a final construction cost estimate ("**Final Cost Estimate**") for the Tenant Improvements in conformity with the Working Drawings and Specifications. Tenant shall have 5 business days from the receipt thereof to approve or disapprove the Working Drawings and Specifications and the Final Cost Estimate. Tenant shall not unreasonably withhold or delay its approval, and any disapproval or requested modification shall be limited to items not consistent with the approved Preliminary Plan or Preliminary Cost Estimate. Should Tenant disapprove the Working Drawings and Specifications or the Final Cost Estimate, such disapproval shall be accompanied by specific reasons for disapproval and a detailed list of requested revisions. Any revision requested by Tenant and accepted by Landlord, shall be incorporated into a revised set of Working Drawings and Specifications and the Final Cost Estimate, and Tenant shall approve same in writing within 5 business days of receipt without further revision.

D. In the event that after Tenant has approved the final Working Drawings and Specifications and the Final Cost Estimate, Tenant requests in writing a revision to the Working Drawings and Specifications ("**Change**"), and Landlord so approves such Change as provided in the Section next below, Landlord shall advise Tenant by written change order as soon as is practical, but no later than 3 business days of any increase in the Completion Cost such

Change would cause. Tenant shall approve or disapprove such change order, if any, in writing within 3 business days following Tenant's receipt of such change order. If Tenant approves any such change order, Landlord, at its election, may either (i) require as a condition to the effectiveness of such change order that Tenant pay the increase in the Completion Cost attributable to such change order concurrently with delivery of Tenant's approval of the change order, or (ii) defer Tenant's payment of such increase until the date 10 business days after delivery of invoices for same, provided however, that the Tenant's Contribution must in any event be paid in full prior to Tenant's commencing occupancy of the Premises. If Tenant disapproves any such change order, Tenant shall nonetheless be responsible for the reasonable architectural and/or planning fees incurred in preparing such change order. Landlord shall have no obligation to interrupt or modify the Tenant Improvement Work pending Tenant's approval of a change order, but if Tenant fails to timely approve a change order, Landlord may (but shall not be required to) suspend the applicable Tenant Improvement Work, in which event any related critical path delays because of such suspension shall constitute Tenant Delays hereunder.

E. Landlord agrees that it shall not unreasonably withhold its consent to Tenant's requested Changes, provided that such consent may be withheld in all events if the requested Change (i) is of a lesser quality than the Tenant Improvements previously approved by Landlord, (ii) fails to conform to applicable governmental requirements, (iii) would result in the Premises requiring building services beyond the level Landlord has agreed to provide Tenant under the Lease, (iv) would delay construction of the Tenant Improvements and Tenant declines to accept such delay in writing as a Tenant Delay, (v) interferes in any manner with the proper functioning of, or Landlord's access to, any mechanical, electrical, plumbing or HVAC systems, facilities or equipment in or serving the Building, or (vi) would have an adverse aesthetic impact to the Premises or would cause additional expenses to Landlord in reletting the Premises.

F. Notwithstanding any provision in the Lease to the contrary, and not by way of limitation of any other rights or remedies of Landlord, if Tenant fails to comply with any of the time periods specified in this Work Letter, fails otherwise to approve or reasonably disapprove any submittal within the time period specified herein for such response (or if no time period is so specified, within 5 business days following Tenant's receipt thereof), fails to approve the Preliminary Cost Estimate within 5 business days following Tenant's receipt thereof, fails to provide all of the Programming Information requested within the time provided herein, fails to approve in writing the Working Drawings and Specifications or the Final Cost Estimate within the time provided herein, fails to timely deliver the Tenant's Contribution as required hereunder, requests any Changes, furnishes inaccurate or erroneous Programming Information, specifications or other information, or otherwise delays in any manner the completion of the Tenant Improvements (including without limitation by specifying materials that are not readily available) or the issuance of an occupancy certificate (any of the foregoing being referred to in this Lease as a "**Tenant Delay**"), then Tenant shall bear any resulting reasonable additional construction cost or other reasonable expenses, and the Commencement Date of this Lease shall be deemed to have occurred for all purposes, including without limitation Tenant's obligation to pay rent, as of the date Landlord reasonably determines that it would have been able to deliver the Premises to Tenant but for the collective Tenant Delays. Should Landlord determine that the Commencement Date should be advanced in accordance with the foregoing, it shall so notify Tenant in writing. Landlord's determination shall be conclusive unless Tenant notifies Landlord in writing, within 5 business days thereafter of Tenant's election to contest same pursuant to Section 14.7 of the Lease. Pending the outcome of such proceedings, Tenant shall make timely payment of all rent due under this Lease based upon the Commencement Date set forth in the aforesaid notice from Landlord.

G. All of the Tenant Improvements shall become the property of Landlord and shall be surrendered with the Premises at the expiration or sooner termination of this Lease, except that Landlord shall have the right, by written notice to Tenant given at the time of Tenant's election of any "Alternate" shown on the approved Preliminary Plan or at the time of Landlord's approval of any Change, to require Tenant either to remove all or any of the Tenant Improvements approved by way of such Change, to repair any damage to the Premises or the Common Areas arising from such removal, and to replace any Non-Standard Improvements so approved with the applicable Standard Improvement, or if Tenant is unable or unwilling to perform any of the foregoing, to reimburse Landlord for the reasonable cost of such removal, repair and replacement upon receipt of invoice. Any such removals, repairs and replacements by Tenant shall be completed by the Expiration Date or sooner termination of this Lease.

H. Landlord shall permit Tenant and its agents to enter the Premises prior to the Commencement Date of the Lease in order that Tenant may install its cubicles, power poles, demo-room fixtures, cabling and related communication equipment through Tenant's own contractors prior to the Commencement Date. Any such work shall be subject to Landlord's prior written approval, and shall be performed in a manner and upon terms and conditions and at times

reasonably satisfactory to Landlord's representative. The foregoing license to enter the Premises prior to the Commencement Date is, however, conditioned upon Tenant's contractors and their subcontractors and employees working in harmony and not interfering with the work being performed by Landlord. If at any time Landlord determines that such entry shall cause disharmony or interfere with the work being performed by Landlord, this license may be withdrawn by Landlord upon 36-hours written notice to Tenant. That license is further conditioned upon the compliance by Tenant's contractors with all requirements imposed by Landlord on third party contractors, including without limitation the maintenance by Tenant and its contractors and subcontractors of workers' compensation and public liability and property damage insurance in amounts and with companies and on forms satisfactory to Landlord, with certificates of such insurance being furnished to Landlord prior to proceeding with any such entry. The entry shall be deemed to be under all of the provisions of the Lease except as to the covenants to pay rent. Landlord shall not be liable in any way for any injury, loss or damage which may occur to any such work being performed by Tenant, the same being solely at Tenant's risk. In no event shall the failure of Tenant's contractors to complete any work in the Premises extend the Commencement Date of this Lease.

- I. Tenant hereby designates Sandy Johnson ("**Tenant's Construction Representative**"), Telephone No. (408) 567-6701, Email: sandy.johnson@aviantnet.com, as its representative, agent and attorney-in-fact for all matters related to the Tenant Improvement Work, including but not by way of limitation, for purposes of receiving notices, approving submittals and issuing requests for Changes, and Landlord shall be entitled to rely upon authorizations and directives of such person(s) as if given directly by Tenant. The foregoing authorization is intended to provide assurance to Landlord that it may rely upon the directives and decision making of the Tenant's Construction Representative with respect to the Tenant Improvement Work and is not intended to limit or reduce Landlord's right to reasonably rely upon any decisions or directives given by other officers or representatives of Tenant. Any notices or submittals to, or requests of, Tenant related to this Work Letter and/or the Tenant Improvement Work may be sent to Tenant's Construction Representative at the email address above provided. Tenant may amend the designation of its Tenant's Construction Representative(s) at any time upon delivery of written notice to Landlord.

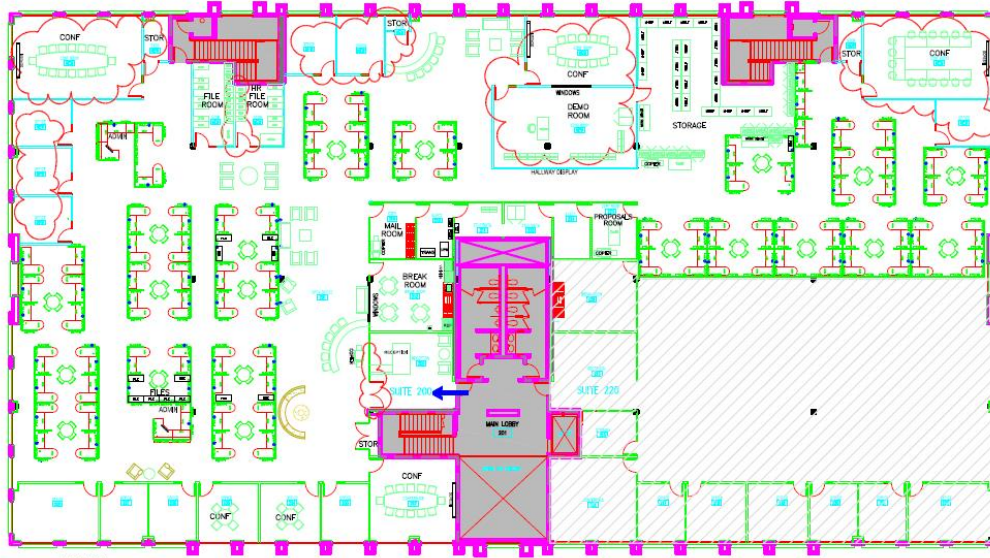
II. COST OF TENANT IMPROVEMENTS

- A. Landlord shall complete, or cause to be completed, the Tenant Improvements, at the construction cost shown in the Final Cost Estimate (subject to increases for Landlord approved Changes and as otherwise provided in this Work Letter), in accordance with final Working Drawings and Specifications approved by both Landlord and Tenant.
- B. Landlord shall pay up to \$95,000.00, based on \$5.00 per usable square foot of the Premises ("**Landlord's Maximum Contribution**"), of the final "Completion Cost" (as defined below). Tenant acknowledges that the Landlord's Maximum Contribution is intended only as the maximum amount Landlord will pay toward approved Tenant Improvements, and not by way of limitation, any partitions, modular office stations, fixtures, cabling, furniture and equipment requested by Tenant are in no event subject to payment as part of Landlord's Contribution. In the event the Completion Cost of the Tenant Improvement Work is less than the Landlord's Maximum Contribution, Landlord's actual contribution toward the Completion Cost ("**Landlord's Contribution**") shall equal such lesser amount, and Tenant shall have no right to receive any credit, refund or allowance of any kind for any unused portion of the Landlord's Maximum Contribution nor shall Tenant be allowed to make revisions to an approved Preliminary Plan, Working Drawings and Specifications or request a Change in an effort to apply any unused portion of Landlord's Maximum Contribution. It is further understood and agreed that the Tenant Improvements shall be substantially completed not later than 90 days following the Commencement Date to be eligible for funding by Landlord, and that Landlord shall not be obligated to fund any portion of the Landlord's Contribution towards the Tenant Improvements commenced after such date.
- C. Tenant shall pay any costs due to inaccurate or incomplete Programming Information and the amount, if any, by which aggregate Completion Cost for the Tenant Improvement Work exceeds the Landlord's Maximum Contribution. The amounts to be paid by Tenant for the Tenant Improvements pursuant to this Section II.C. are sometimes cumulatively referred to herein as the "**Tenant's Contribution**".
- D. The "**Completion Cost**" shall mean all costs of Landlord in completing the Tenant Improvements in accordance with the approved Working Drawings and Specifications and with any approved Changes thereto, including but not limited to the following costs: (i) payments made to architects, engineers, contractors, subcontractors and other third party consultants in the performance of the work, (ii) permit fees and other sums paid to governmental agencies, and (iii) costs of all materials incorporated into the work or used in connection with the work. The Completion Cost shall also include a construction management fee to be paid to Landlord or to Landlord's management agent in the amount of three percent (3%) of the Completion Cost not to exceed \$4,000.00. Unless expressly

authorized in writing by Landlord, the Completion Cost shall not include (and no portion of the Landlord's Contribution shall be paid for) any costs incurred by Tenant, including without limitation, any costs for space planners, managers, advisors or consultants retained by Tenant in connection with the Tenant Improvements.

E. Prior to start of construction of the Tenant Improvements, Tenant shall pay to Landlord in full the amount of the Tenant's Contribution set forth in the Final Cost Estimate (once approved by Tenant). If the actual Completion Cost of the Tenant Improvements is greater than the Final Cost Estimate because of Changes, modifications or extras not reflected on the approved Working Drawings and Specifications, or because of Tenant Delays, then Tenant shall pay all such additional costs after receipt of Landlord's invoice and prior to the Commencement Date of this Lease. If Tenant defaults in the payment of any sums due under this Work Letter, and fails to cure such default within 5 business days after receipt of written notice from Landlord specifying such default. Landlord shall (in addition to all other remedies) have the same rights as in the case of Tenant's failure to pay rent under the Lease, including, without limitation, the right to terminate this Lease and recover damages from Tenant and/or to charge a late payment fee and to collect interest on delinquent payments, and Landlord may (but shall not be required to) suspend the Tenant Improvement Work until such default is cured, in which event any delays because of such suspension shall constitute Tenant Delays hereunder.

EXHIBIT X-1
PRE-APPROVED PLAN



5/19/2016

TI SPECIFICATIONS
Aviat Networks, suite 200
Rev.5, May 19-2016

INTERIOR:

- Add full length window to front door to Suite #200.
- Add windows in wall of Lunchroom.
- Add double-door from lobby, into office area with card-access lockset (double door with 7"x22" vision-light windows). NOTE: Door next to wall is active.
- Add Drinking fountain in office area (near existing plumbing)
- Make doorway opening between IDF rooms 210 & 225 (no Door).
- Remove door and close opening in IDF room 225
- Remove upper cabinets in Mailroom #209
- Remove all cabinets in Copy room #223
- Add six Offices (single door with 24" sidelight).
- Add three Conference rooms. (single door with 24" sidelight)
- Add one room for Demo-room with windows in wall adjacent to Conference room (single door with 24" sidelight)
- Add two file rooms (single door with 24" sidelight).
- Add three small storage rooms. (single door no sidelight).

FLOOR:

- Add VCT floor in Demo room.
- Specify floor thickness to allow for correct 3/8" wedge floor-anchors to be installed into 14 equipment rack bases.

HVAC:

- Add 24 hour 5ton HVAC ducted to Demo room, IDF/Server room, and electrical room.
- Add exhaust venting for Lunch room.

ELECTRICAL

- Install a floor 110volt electrical outlet/databox in the center of each of the 6 conference rooms.
- Install four ceiling projection screens in the three corner conference rooms, and the room next to the Demo room.
- Install 110volt power at all entry doors for the card access system hardware and for cameras.
- Electrical room
 - Add a 208v 3-phase 5-wire 80amp disconnect for UPS battery backup unit.
 - Add a 208v 3-phase 5-wire 125amp electrical panel with 32 spaces for output from UPS through a "Bypass Switch" (to be installed on the wall) in the IDF room.
- IDF rooms
 - Add five dedicated 120v/20amp outlets from UPS panel, on wall for equipment, at 6 ½ feet high.
 - Add three dedicated L21-20 outlets from UPS panel, on wall for equipment, at 6 ½ feet high.
 - Add two dedicated L6-30 outlets from UPS panel, on wall for equipment, at 6 ½ feet high.
- Proposals copy room
 - Add one dedicated 110v four-plex outlets and one L6-20 208v outlet.
- Demo room
 - Add fifteen dedicated 110v 20amp electrical outlets at 6 ½ feet high (to be identified on electrical blueprint).
 - Add three 208v 30amp L6-30 electrical outlets for equipment (to be identified on electrical blueprint).
 - Add three L21-20 outlets for demo room power-supply cabinets (to be identified on electrical blueprint).
 - Add utility 110v 20amp electrical outlets on each wall.
 - Add #2 ground-wire for grounding bus (to be identified on electrical blueprint).
- SMALL STORAGE ROOMS
 - Add one 120v/20amp outlet in each room (to be identified on electrical blueprint).
- CUBE AREA
 - Add two dedicated 120v/20amp circuits for each section of cubicles
 - Add one dedicated 120v/20amp outlet for each of the four Copier locations (to be identified on Spaceplan).
- EXTERIOR SIGN POWER
 - Install a 110-volt circuit to be used for a lighted wall sign to be installed on the top-left side of the entry door.

PAINT:

- Paint Lobby white (eggshell finish) with one accent wall (Aviat green, P4 on Corp color-palette).
- Re-paint accent walls to Aviat Corp color-palette (to be identified on Spaceplan).

LOCKSETS:

- Add lockset to each office door, if none.
- Add lockset to each conference room door, if none.
- Add lockset to back door of Demo room.
- Add electronic card-access lockset to door from Lobby area into office area.
- Add electronic card-access lockset to back door from stairway into office area.
- Add electronic card-access lockset to door of IDF/Server room.
- Add electronic card-access lockset to front door of Demo room.
- Add electronic card-access lockset to door of Proposals copy center.

Schedule I

Tenant Improvement / Interior Construction Outline Specifications (By Tenant/Tenant Allowance)

Note: During preliminary walk throughs, construction management is to confirm re-use of existing building components and provide direction to: 1) match existing, or 2) provide new building standard at all remodel conditions; or 3) provide upgrade to building standard based on project team input. Each suite to be reviewed on a case-by-case basis.

**TENANT STANDARD
GENERAL OFFICE:**

CARPET
Direct glue broadloom carpet.

VINYL COMPOSITION TILE (VCT)
12" x 12" VCT Armstrong Standard Excelon.

WALLS
Standard Walls: 5/8" gypsum drywall on 2-1/2" x 25 ga. metal studs 16" o.c., floor to ceiling construction. No walls shall penetrate the grid unless required by code. All walls shall be straight, and parallel to building exterior walls. All offices and rooms shall be constructed of a standard size and tangent to a building shell or core wall.

Exterior Walls (First Generation Only): 5/8" gypsum drywall furring on 25 ga. metal studs, with R-13 insulation.

PAINT
Paint finish, one standard color to be Benjamin Moore AC-40, Glacier White, flat finish. Dark colors subject to Landlord approval.

BASE
2-1/2" Burke rubber base; straight at out pile carpet, coved at resilient flooring and loop carpet.

RUBBER TRANSITION STRIP
Transition strip between carpet and resilient flooring to be Burke #150, color: to match adjacent V.C.T.

PLASTIC LAMINATE
Plastic laminate color at millwork: Nevamar "Smoky White", Textured #S-7-27T.

CEILING
2x4 USG Radar Illusions #2842 scored ceiling tile, installed in building standard 9/16" or 15/16" T-bar grid. Continuous grid throughout.

LIGHTING
All spaces are to be illuminated with building standard 2 x 4 direct/indirect fixtures, approved by the Landlord.

DOORS
1-3/4" solid core, 3'-0" x 8'-10" plain sliced white oak, Western integrated clear anodized aluminum frames, Schlage "D" series "Sparta" latchset hardware, dul chrome finish.

OFFICE SIDELITES
All interior offices to have sidelite glazing adjacent to office entry door, 4' wide x door height, Western integrated clear anodized aluminum frame integral to door frame with clear tempered glass.

WINDOW COVERINGS
Vertical blinds: Mariak Industries PVC blinds at building perimeter windows, Model M-3000, Color: Light Grey.

**TENANT STANDARD
MECHANICAL:**

HVAC
General: Exterior corner spaces with more than one exposure shall be provided with a separate zone. Conference Room (or Training Room) 20' x 13' or larger shall be provided with a separate zone. Exterior zone shall be limited to a single exposure and a maximum of 750 to 1000 square feet.

Campus Office Building: Interior and Exterior zone VAV boxes shall be connected to the main supply air loop. Exterior zone VAV boxes shall be provided with two-row hot water reheat coil. Interior zone shall be limited to a maximum of 2000 square feet.

Air distribution downstream of VAV boxes shall be provided complete with ductwork, 2'x2' perforated face ceiling diffusers, 2'x2' perforated return air grilles and air balance. All ductwork shall be sheet metal constructed per SMACNA standards and insulated per the latest Title 24 requirements.

Pneumatic thermostats with blank white cover shall be provided for each zone. Thermostats shall be located adjacent to light switch at 48" above finished floor. When the building utilizes DDC zone control, DDC system shall be Anderson and installed by AAS. DDC system shall be interfaced to the existing Irvine Company network.

Tenant Improvement / Interior Construction Outline Specifications
(Continued)

**TENANT STANDARD
MECHANICAL (CONTINUED):**

Mid-Tech / Manufacturing Building: Air distribution downstream of packaged rooftop units and/or split system fan coil units shall be provided complete with ductwork, 2'x2' perforated face ceiling diffusers, 2'x2' perforated return air grilles and air balance. All ductwork shall be sheet metal constructed per SMACNA standards and insulated per the latest Title 24 requirements. Interior zone shall be limited to a maximum of 2500 square feet.

Packaged rooftop units and/or split system units shall be connected to existing Irvine Company Energy Management System. Thermostats shall be located adjacent to light switch at 48" above finished floor. EMS shall be Andover and installed by AAS.

New packaged rooftop units larger than 5-ton shall be provided with seismic isolation curb with minimum 1-inch spring deflection. New packaged rooftop units larger than 6.25 ton shall be provided with economizer with barometric relief damper.

**TENANT STANDARD FIRE
PROTECTION:**

FIRE PROTECTION

Pendant satin chrome plated, recessed heads, adjustable canopies, minimum K factor to be 5.62, located at center of 2' x 2' section of scored ceiling tile. Ceiling drops from shell supply loop.

**TENANT STANDARD FIRE
SPRINKLER:**

FIRE SPRINKLER

- Hard pipe to be used. Any substitutions to be submitted for Landlord review and approval prior to install.
- Center sprinkler head in 2x2 ceiling tile.

**TENANT STANDARD
ELECTRICAL:**

ELECTRICAL SYSTEM

A 277/480 volt, three phase, four wire tenant metered distribution section will be added to main service at Main Electrical Room.

Tenant Electrical Room, located within the lease space, as directed by the Landlord, to include 277/480 volt and 120/208 volt panels, transformer, lighting control panel, as required. All newly installed panels and distribution boards shall have all branch circuit loads appropriately disaggregated per 2013 Title 24 requirements.

Standard tenant electrical capacity will be provided in the following capacity:

- Lighting 277V: Minimum of 1.2 watt watts per s.f.
- General 277V Power: As required to accommodate tenant loads.
- HVAC Power 277/480V: As required to accommodate the HVAC equipment.
- General 120/208V Power: Minimum of 8.0 watts per s.f.

LIGHTING

All spaces are to be illuminated with building standard 2' x 4', direct/indirect fixtures based on one (1) fixture per 96 square feet. All lighting in newly renovated areas (and associated existing areas with renovations mandated by 2013 Title 24 requirements) are to be illuminated with building standard 2'x4' direct/indirect LED 0-10V dimmable fixtures based on (1) fixture per 96 square feet.

Fixture to be Focal Point TICLED-24-4000L-35 (FLUL-24-PS-4000L-35K-1C-VOLT-LD1-GRID TYPE-EQ-WH) - All Fixtures should be ordered via Southern California Illumination, contact rep at 949-622-3000.

Any substitutions to these fixtures must be reviewed/approved by the Landlord.

All lighting in newly renovated areas (and associated existing areas with renovations mandated by 2013 Title 24 requirements) are to be controlled by 2013 Title 24 compliant digital lighting system, complete with room controller capable of full range 0-10V LED dimming, occupancy sensors, daylight sensors (as required), and low voltage digital switches as required for each respective enclosed space. Locate switches at 48" to switch centerline. Digital control system shall be by Greengate or equal by Wattstopper. Projects in excess of 10,000 square feet shall also have demand responsive controls via input / output interface at each room controller location with applicable low voltage conductors routed to tenant electrical room for future connection to demand response system per 2013 Title 24 requirements.

Exit signs: Internally illuminated, white sign face with green text.

OUTLETS

Power: Leviton "Decora" style 15 / 20 amp 125-volt specification grade white duplex receptacle mounted vertically, 18" AFF to centerline, with a white plastic coverplate.

2013 Title 24 controlled receptacles are to be plug load controllable decorator receptacle, 15A, half control, white in color Legrand #26252CHW. Receptacle relay shall be wired to room controller in respective vicinity or enclosed space for controlled receptacle to shut off during periods of vacancy.

Tenant Improvement / Interior Construction Outline Specifications

(Continued)

TENANT STANDARD ELECTRICAL (CONTINUED):

All furniture systems will be assumed to be a four (4) circuit / eight (8) wire configuration. All furniture system workstations are assumed to have personal computers only and will be connected at a ratio of eight (8) workstations per four (4) circuit / eight (8) wire homerun. For each four circuit homerun, the two "general" circuits shall be controlled circuits per 2013 Title 24 requirements and shall be controlled by relays connected to the room controller in respective vicinity or enclosed space for controlled receptacles in partitions to shut off during periods of vacancy.

All wall mounted furniture system communication feeds will be provided with (2) 1 1/2" conduit (non-fire rated / non-insulated walls) OR (2) 1-1/4" conduit (fire rated / insulated walls); a 4SDP box and a double-gang mud ring in the wall. One (1) furniture system communication feeds will be assumed to be capable of providing enough cabling capacity for eight (8) workstations.

Power and Telecom Feeds to systems furniture by Tenant to be via walls, furred columns or ceiling J-box.

All wall mounted general communication outlets in non-fire rated / non-insulated walls will be provided a 2-gang mud ring and a pull string in the wall. All wall mounted communication outlets in fire-rated and insulated walls will be provided with 3/4" conduit (voice and / or data only) OR a 1" conduit (combination voice / data), stubbed into the accessible ceiling space, 4S/DP box and a single gang mud ring in the wall. Cover plate, jacks and cables by tenant.

A single tenant telecom room will be provided with a single 4' x 8' backboard. An empty 2" conduit will be routed from this backboard to the building's main telephone backboard. An empty 4" conduit sleeve will be stubbed into the accessible ceiling space.

TENANT STANDARD WAREHOUSE/SHIPPING AND RECEIVING (IF APPLICABLE):

FLOORS
Sealed concrete.

WALLS
5/8" gypsum wallboard standard partition, height and construction subject to Landlord approval. At furred walls, paint to match Benjamin Moore AC-40 Glacier White. Provide rated partition at occupancy separation, as required by code.

CEILING
Exposed structure, non-painted.

WINDOWS
None.

ACCESS
7'-6" H x 7'-6" W glazed service doors. Glazing is bronze reflective glass.

HVAC
None.

PLUMBING
Single accommodation restroom, if required.

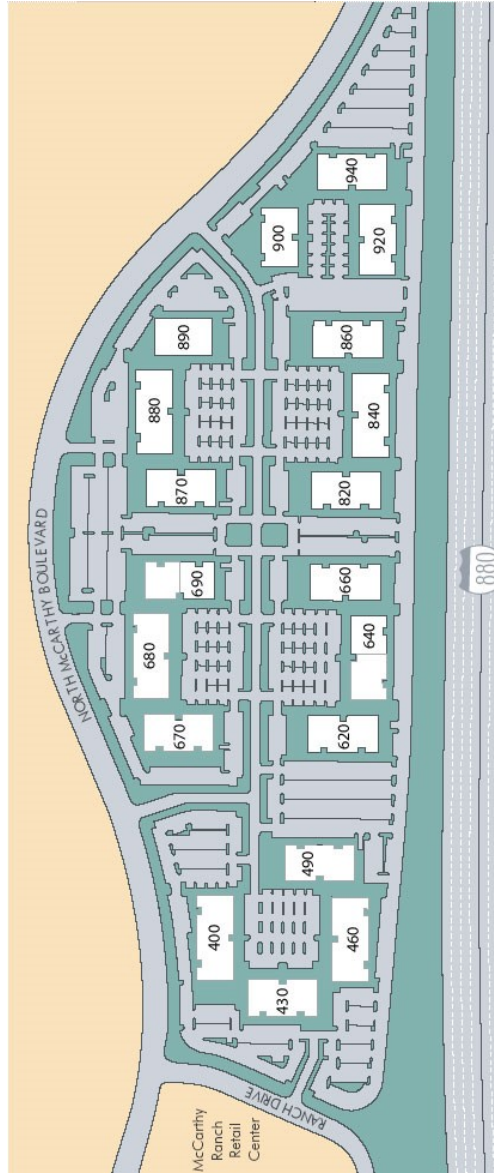
Sheet vinyl flooring to be Armstrong Classic Corlon "Seagate" #86526 Oyster, with Smooth White FRP panel wainscot to 48" high. Painted walls and ceiling to be Benjamin Moore AC-40 Glacier White, semi-gloss finish.

LIGHTING
T5 High Bay, 2 x 4 fixtures.

OTHER ELECTRICAL
Convenience outlets; surface mounted at exposed concrete walls.

SECURITY
Lockable doors.

EXHIBIT Y
PROJECT DESCRIPTION



LEASE TERMINATION AGREEMENT

This Lease Termination Agreement (this "**Agreement**") is entered into as of the 1st day of June, 2016 (the "**Effective Date**"), by and between ASLAN NEWCASTLE GREAT AMERICA OWNER, L.L.C., a Delaware limited liability company ("**Landlord**"), and AVIAT U.S., INC., a Delaware corporation ("**Tenant**").

RECITALS:

A. Landlord (as successor-in-interest to Great America Office Investors TIC 1, LLC, a Delaware limited liability company) and Tenant (formerly known as Harris Stratex Networks Operating Corporation, a Delaware corporation) are parties to that certain Lease dated October 1, 2009 (the "**Original Lease**"), as amended by the First Amendment to Lease, dated October 15, 2009 (the "**First Amendment**"), the letter agreement, dated December 10, 2009 (the "**Second Amendment**"), the Third Amendment to Lease dated February 5, 2010 (the "**Third Amendment**"), the Fourth Amendment to Lease and Lease Commencement Addendum dated May 19, 2010 (the "**Fourth Amendment**"), the Fifth Amendment to Lease (undated) (the "**Fifth Amendment**"), and the Sixth Amendment to Lease dated August 30, 2013 (the "**Sixth Amendment**", which together with the Original Lease, the First Amendment, the Second Amendment, the Third Amendment, the Fourth Amendment, and the Fifth Amendment shall be referred to herein as the "**Lease**"), pursuant to which Tenant leases the entirety of that certain two-story office building located at 5200 Great America Parkway, Santa Clara, California 95054 (the "**Premises**").

B. Tenant and Landlord desire to enter into this Agreement in order to terminate the Lease and to release one another from their respective obligations thereunder, except as otherwise provided herein.

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing recitals and the conditions and the covenants hereinafter contained, and for other consideration hereinafter set forth, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows.

1. **Capitalized Terms.** All terms defined in the Lease when used herein shall have the same meaning as is given such terms in the Lease unless expressly superseded by the terms of this Agreement.

2. **Termination of the Lease.** Landlord and Tenant hereby agree that conditioned upon the performance by the parties of the provisions of this Agreement, the Lease shall terminate and be of no further force or effect as of the date (the "**Termination Date**") designated by Tenant upon thirty (30) days prior written notice to Landlord; provided that the Termination Date shall be no earlier than is four (4) months and no later than six (6) months following the Effective Date. In the event Tenant does not timely deliver notice designating the Termination Date, then the Termination Date shall be deemed to be the date that is six (6) months following the Effective Date.

3. **Surrender of Premises.** Tenant hereby agrees to vacate the Premises and surrender and deliver exclusive possession of the Premises to Landlord on or before the Termination Date in accordance with the provisions of the Lease. On or before the Termination Date, Tenant shall, at Tenant's sole cost and expense, remove or cause to be removed from the Premises any and all furniture and equipment, free-standing cabinet work, all telephone, computer, data and other cabling and wiring, and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and such similar articles of any other persons claiming under Tenant, as well as any improvements and/or alterations required to be removed by Tenant under the terms of the Lease upon the expiration or earlier termination of the Lease, and deliver the Premises to Landlord in a broom-clean condition. Tenant shall immediately repair at its own expense all damage to the Premises and the Building resulting from any such removal. If Tenant fails to complete such removal and/or repair any damage caused by such removal, Landlord may (but shall not be obligated to) do so and may charge the reasonable and actual cost thereof to Tenant.

4. **Termination Fee.** In consideration for Landlord's execution of this Agreement, Tenant shall deliver to Landlord fourteen (14) monthly payments (the "**Termination Fee**") of One Hundred Thirty-Five Thousand Nine Hundred Ninety-Nine and 85/100 Dollars (\$135,999.85) each, due and payable on the first day of each calendar month from the Termination Date (the "**Termination Fee Payment Period**"). If, at any time during the Termination Fee Payment Period, Tenant fails to pay the required portion of the Termination Fee hereunder within ten (10) business days of the due date (a "**Default**"), and Tenant fails to cure such Default within five (5) business days after it receives written notice of such Default from Landlord (provided that Landlord shall have the right to immediately demand such sums and any arrears thereof, without providing prior notice or an opportunity to cure if (A) Tenant has filed a voluntary petition under the U. S. Bankruptcy Code or any state bankruptcy code (collectively, "**Bankruptcy Code**"), or (B) an involuntary petition has been filed against Tenant under the Bankruptcy Code, or (C) the Lease has been rejected, or is deemed rejected, under Section 365 of the U.S. Bankruptcy Code, following the filing of a voluntary petition by Tenant under the Bankruptcy Code, or the filing of an involuntary petition against Tenant under the Bankruptcy Code), then the Termination Fee Payment Period shall immediately terminate, and Tenant shall immediately become obligated to pay the entire Termination Fee in full.

5. **Release of Liability.** Except as otherwise provided in Sections 4, 6, 7 and 8 hereof, and conditioned on the performance by the parties of the provisions of this Agreement:

5.1 Landlord and Tenant shall, as of the Termination Date, be fully and unconditionally released and discharged from their respective obligations arising or accruing after the Termination Date from or connected with the provisions of the Lease, specifically excluding, without limitation, the rights and obligations set forth in the last two paragraphs of Paragraph 4.3 of the Lease, and Landlord's obligation to refund any overpayment of Operating Expenses, and Tenant's obligation to pay any underpayment of Operating Expenses; and

5.2 this Agreement shall fully and finally settle all demands, charges, claims, accounts or causes of action of any nature, including, without limitation, both known and unknown

claims and causes of action that may arise out of or in connection with the obligations of the parties arising or accruing under the Lease after the Termination Date.

Each of the parties expressly waives the provisions of California Civil Code Section 1542, which provides:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

Each party acknowledges that it has received the advice of legal counsel with respect to the aforementioned waiver and understands the terms thereof.

6. **Representations of Tenant.** Tenant represents and warrants to Landlord that (a) Tenant has not heretofore assigned or sublet all or any portion of its interest in the Lease; (b) no other person, firm or entity has any right, title or interest in the Lease; (c) Tenant has the full right, legal power and actual authority to enter into this Agreement and to terminate the Lease without the consent of any person, firm or entity; and (d) Tenant has the full right, legal power and actual authority to bind Tenant to the terms and conditions hereof. Tenant further represents and warrants to Landlord that as of the date hereof there are no, and as of the Termination Date there shall not be any, mechanic's liens or other liens encumbering all or any portion of the Premises, by virtue of any act or omission on the part of Tenant, its predecessors, contractors, agents, employees, successors or assigns. Notwithstanding the termination of the Lease and the release of liability provided for herein, the representations and warranties set forth in this Section 6 shall survive the Termination Date and Tenant shall be liable to Landlord for any inaccuracy or any breach thereof.

7. **Continuing Liability.** Notwithstanding the termination of the Lease and the release of liability provided for herein, Tenant shall remain liable, with respect to the period of its tenancy prior to the Termination Date, for the performance of all of its obligations under the Lease (including, without limitation, Tenant's payment of reconciliation of Operating Expenses) and Landlord shall have all the rights and remedies with respect to such obligations as set forth in the Lease. In the event that Tenant retains possession of the Premises or any part thereof after the Termination Date, then the provisions of Article 26 of the Original Lease shall apply (and the rent payable under the Lease during any such period of holding over shall be determined in accordance with Article 26 and shall be exclusive of the rent deferment set forth in Section 4 above). In such event, the Termination Fee Payment Period shall commence on the first day of the calendar month following the date Tenant vacates the Premises.

8. **Return of Security Deposit.** Provided that Tenant is in compliance with the terms of this Agreement and the Lease, Landlord shall return fifty percent (50%) of Tenant's security deposit to Tenant on the Termination Date and the remaining fifty percent (50%) within thirty (30) days following Tenant's payment of the last installment of the Termination Fee.

9. **Disposition of Personal Property.** In the event that Tenant does not remove its personal property, equipment and signage ("**Personal Property**") from the Premises prior to the Termination Date, Tenant acknowledges that Landlord shall be entitled, but shall not be obligated, to dispose of said Personal Property in any manner it deems fit, and charge the cost of such disposal to Tenant. Tenant hereby waives any rights it may have to notice under California Civil Code sections 1980 et seq. with respect to such Personal Property.

10. **Renovations.** As of the date hereof, Landlord shall have the right to enter the Premises from time to time to renovate, improve, alter, or modify the portions of the Premises that are not then occupied by Tenant for the conduct of its business (collectively, the "**Renovations**"). Landlord shall use commercially reasonable efforts to minimize disruption to Tenant's business in connection with such Renovations, including performing demolition work outside of normal business hours. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of rent. Landlord shall have no responsibility or for any reason be liable to Tenant for any direct or indirect injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's personal property or improvements resulting from the Renovations or Landlord's actions in connection with such Renovations, or for any inconvenience or annoyance occasioned by such Renovations or Landlord's actions, except for property damage or personal injury to the extent resulting from Landlord's negligence or willful misconduct.

11. **Governing Law.** This Agreement shall be governed and construed under the laws of the State of California.

12. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but such counterparts, when taken together, shall constitute one agreement.

13. **Binding Effect.** This Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective legal representatives, successors and assigns.

14. **Time of the Essence.** Time is of the essence of this Agreement and the provisions contained herein.

15. **Further Assurances.** Landlord and Tenant hereby agree to execute such further documents or instruments as may be necessary or appropriate to carry out the intention of this Agreement.

16. **Voluntary Agreement.** The parties have read this Agreement and mutual release as contained herein, and on the advice of counsel they have freely and voluntarily entered into this Agreement.

[SIGNATURES FOLLOW ON NEXT PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Agreement as of the day and year first above written.

"LANDLORD":

ASLAN NEWCASTLE GREAT AMERICA OWNER,
L.L.C.,
a Delaware limited liability company

By: /s/ Timothy E. McChesney
Name: Timothy E. McChesney
Title: Managing Director

"TENANT":

AVIAT U.S., INC.,
a Delaware corporation

By: /s/ Ralph Marimon Name: Ralph Marimon Title: CFO

AVIAT NETWORKS, INC.

SUBSIDIARIES AS OF JULY 1, 2016

(100% direct or indirect ownership by Aviat Networks, Inc.)

<u>Name of Subsidiary</u>	<u>State or Other Jurisdiction of Incorporation</u>
Aviat Networks Algeria S.A.R.L.	Algeria
Aviat Networks (Australia) Pty. Ltd. .	Australia
Aviat Networks (Bangladesh) Limited	Bangladesh
Aviat Networks Brasil Servicos em Comunicacoes Ltda.	Brazil
Aviat Networks Canada ULC	Canada
Aviat Communications Technology (Shenzhen) Company Ltd.	The People's Republic of China
Aviat Networks France S.A.S.	France
Aviat Networks Ghana Limited	Ghana
Aviat Networks Holland B.V.	The Netherlands
Aviat Networks HK Limited	Hong Kong
Aviat Networks (India) Private Limited	India
Telsima Communications Private Limited	India
Pt. Aviat Networks Indonesia	Indonesia
Aviat Networks Côte d'Ivoire	Ivory Coast
Aviat Networks (Kenya) Limited	Kenya
Aviat Networks Malaysia Sdn. Bhd.	Malaysia
Digital Microwave (Mauritius) Private Limited	Mauritius
Aviat Networks México S.A. de C.V.	Mexico
Aviat Networks (NZ) Limited	New Zealand
Aviat Networks Communication Solutions Limited	Nigeria
Stratex Networks Nigeria Limited	Nigeria
Aviat Networks (Clark) Corporation	The Philippines
Aviat Networks Philippines, Inc.	The Philippines
Aviat Networks Polska Sp. z.o.o.	Poland
Aviat Networks Solutions LLC	Russia
Aviat Networks (S) Pte. Ltd.	Republic of Singapore
Aviat storitveno podjetje, d.o.o.	Slovenia
Aviat Networks (South Africa) (Proprietary) Limited	Republic of South Africa
MAS Technology Holdings (Proprietary) Limited	Republic of South Africa
DMC Stratex Networks (South Africa) (Proprietary) Limited	Republic of South Africa
Aviat Ubuntu Telecommunication (Pty) Limited	Republic of South Africa
Aviat Networks Tanzania Limited	Tanzania
Aviat Networks (Thailand) Ltd.	Thailand
Aviat Networks (UK) Limited	Delaware
Aviat International Holdings, Inc.	Delaware
Aviat U.S., Inc.	Delaware
Telsima Corporation	Delaware
Aviat Networks Telecommunications Zambia Limited	Zambia

Consent of Independent Registered Public Accounting Firm

Aviat Networks, Inc.
Santa Clara, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-178467, 333-163542 and 333-140442) of Aviat Networks, Inc. of our report dated September 8, 2016, relating to the fiscal 2016 and 2015 consolidated financial statements and financial statement schedule which appears in this Form 10-K.

/s/ BDO USA, LLP

San Jose, California

September 8, 2016

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Aviat Networks, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-209462, 333-178467, 333-163542 and 333-140442) on Form S-8 of Aviat Networks, Inc. of our report dated December 19, 2014, with respect to the consolidated statements of operations, comprehensive loss, equity, and cash flows for the year ended June 27, 2014, and related financial statement schedule, which report appears in the July 1, 2016 annual report on Form 10-K of Aviat Networks, Inc.

/s/ KPMG LLP

Santa Clara, California

September 8, 2016

CERTIFICATION

I, Michael A. Pangia, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended July 1, 2016, of Aviat Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 8, 2016

/s/ Michael A. Pangia

Name: Michael A. Pangia

Title: President and Chief Executive Officer

CERTIFICATION

I, Ralph S. Marimon, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended July 1, 2016, of Aviat Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 8, 2016

/s/ Ralph S. Marimon

Name: Ralph S. Marimon
Title: Senior Vice President and Chief Financial Officer, Principal Financial Officer

Certification

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Annual Report on Form 10-K of Aviat Networks, Inc. (“Aviat Networks”) for the fiscal year ended July 1, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Michael A. Pangia, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. §1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Aviat Networks as of the dates and for the periods expressed in the Report

Date: September 8, 2016

/s/ Michael A. Pangia

Name: Michael A. Pangia
Title: President and Chief Executive Officer

Certification

Pursuant to Section 1350 of Chapter 63 of Title 18 of the
United States Code as Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Annual Report on Form 10-K of Aviat Networks, Inc. ("Aviat Networks") for the fiscal year ended July 1, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Ralph S. Marimon, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. §1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Aviat Networks as of the dates and for the periods expressed in the Report

Date: September 8, 2016

/s/ Ralph S. Marimon

Name: Ralph S. Marimon

Title: Senior Vice President and Chief Financial
Officer, Principal Financial Officer