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 2, 2021 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	**20-5961564**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
200 Parker Drive, Suite C100A, Austin, Texas	**78728**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (408) 941-7100

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	AVNW	NASDAQ Stock Market LLC
Preferred Share Purchase Rights		NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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, 2021, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $165.4 million. For purposes of this calculation, the registrant has assumed that its directors, executive officers and holders of 10% or more of the outstanding common stock are affiliates.

As of August 20, 2021, there were 11,165,221 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its fiscal 2021 Annual Meeting of Stockholders ("Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended July 2, 2021, are incorporated by reference into Part III of this Annual Report on Form 10-K.

AVIAT NETWORKS, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended July 2, 2021

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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, Inc. 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:

- *the impact of COVID-19 on our business, operations and cash flows;*
- *continued price and margin erosion as a result of increased competition in the microwave transmission industry;*
- *the impact of the volume, timing, and customer, product, and geographic mix of our product orders;*
- *the timing of our receipt of payment for products or services from our customers;*
- *our ability to meet projected new product development dates or anticipated cost reductions of new products;*
- *our suppliers' inability to perform and deliver on time as a result of their financial condition, component shortages, the effects of COVID-19 or other supply chain constraints;*
- *customer acceptance of new products;*
- *the ability of our subcontractors to timely perform;*
- *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;*
- *the effects of current and future government regulations, including the effects of current restrictions on various commercial and economic activities in response to the COVID-19 pandemic;*
- *general economic conditions, including uncertainty regarding the timing, pace and extent of an economic recovery in the United States and other countries where we conduct business;*
- *the conduct of unethical business practices in developing countries;*
- *the impact of political turmoil in countries where we have significant business;*
- *the impact of tariffs, the adoption of trade restrictions affecting our products or suppliers, a United States withdrawal from or significant renegotiation of trade agreements, the occurrence of trade wars, the closing of border crossings, and other changes in trade regulations or relationships; and*

- *our ability to implement our stock repurchase program or that it will enhance long-term stockholder value.*
- *our ability to meet financial covenant requirements which could impact, among other things, our liquidity;*

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 expressly disclaim any obligation, other than as required by law, to update any forward-looking statements to reflect further developments or information obtained after the date of filing of this 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,” “Aviat,” “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 200 Parker Dr., Suite C100A, Austin, Texas 78728, and our telephone number is (408) 941-7100. Our common stock is listed on the NASDAQ Global Select Market under the symbol AVNW. As of July 2, 2021, we had 687 employees compared with 674 employees as of July 3, 2020.

Overview and Description of the Business

We design, manufacture and sell a range of wireless networking products, solutions and services to two principal customer types.

1. Communications Service Providers (“CSPs”): These include mobile and fixed telecommunications network operators, broadband and internet service providers and network operators which generate revenues from the communications services that they provide.

2. Private network operators: These are customers which do not resell communications services but build networks for reasons of economics, autonomy, and/or security to support a wide variety of mission critical performance applications. Examples include federal, state and local government agencies, transportation agencies, energy and utility companies, public safety agencies and broadcast network operators around the world.

We sell products and services directly to our customers, and, to a lesser extent, 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 optimized for a microwave and millimeter wave environment and for hybrid applications of microwave and optical fiber transport, to form complete networking solutions. We provide software tools and applications to enable deployment, monitoring, network management and optimization of our systems as well as to automate network design and procurement. We also source, qualify, supply and support 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, optimization 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 to offshore oil and gas production platforms. Through the air wireless transmission is also inherently lower in latency than transmission through optical cables and can be leveraged in time sensitive networking applications.

Revenue from our North America and international regions represented approximately 67% and 33% of our revenue in fiscal 2021, respectively, 64% and 36% of our revenue in fiscal 2020, respectively, and 54% and 46% of our revenue in fiscal 2019, respectively. 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 10. 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/5G Networks

As mobile networks expand, add subscribers and increase the number of wirelessly connected devices, sensors and machines, they require ongoing 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.

- *5G Deployments.* Mobile Radio Access Network ("RAN") technologies are continually evolving. With the evolution from 4G (HSPA+ and LTE) to 5G, technology is continuously 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.
- *Network Densification.* 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 interconnection and proportionally driving increased demand for wireless backhaul and or fronthaul solutions as the primary alternative to optical fiber connectivity.
- *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.

Rural Broadband

- *Middle Mile*. Aviat transport equipment is used to deliver broadband connectivity to rural and suburban communities as an alternative to costly fiber. There are significant investments being made to improve rural household and enterprise connectivity and many of these investments target middle mile infrastructure builds.
- *Expansion of Offered Services.* Internet service providers, especially those 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.

Private Networks

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.
- 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.
- 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 executing future generations of our technology, our goal is to make wireless technology a viable choice for an ever-broadening range of network types.

Strategy

As we continue executing our technology roadmap, we are engaging more deeply with customers on the evolution of use cases and applications as 5G mobile and broadband networks edge closer to implementation and begin to factor more strongly in the vendor selection process. We are confident in our ability to address current and future 5G market needs.

We are focused on building a sustainable and profitable business with growth potential. We have invested in our people and processes to create a platform for operational excellence across sales, services, product development and supply chain areas while continuing to make investments in strengthening our product and services portfolio and expanding our reach into targeted market areas.

Our strategy has three main elements aligned to deliver a compelling Total Cost of Ownership (“TCO”) value proposition. The first is our portfolio of wireless transport products allowing our customers increased capacity and flexibility with a much better total cost solution. We are expanding the data-carrying capacity of our wireless products to address the increasing data demand in networks of all types.

Second, in order to address the operational complexity of planning, deploying, owning and operating microwave networks, we are investing in a combination of software applications, tools and services where simplification, process automation and our unique expertise in wireless technology can make a significant difference for our customers and partners.

Finally, Aviat is investing in e-commerce through our Aviat Store platform and supporting supply chain capabilities. Aviat can better service customers buying through the Aviat Store with lower costs, faster lead times and a simpler purchasing experience. The Aviat Store, together with our supply chain, enables customers (including Tier 2 and mobile 5G operators) to purchase products as needed, thus avoiding lengthy and variable lead times that come with other vendor solutions and allowing those customers to lower warehousing costs, reduce obsolete equipment, and lower the cost of capital by paying only when equipment is needed.

We continue to develop our professional services portfolio as key to our long-term strategy and differentiation. We offer a portfolio of hosted expert services and we continue to offer training and accreditation programs for microwave and IP network design, deployment and maintenance.

We expect to continue to serve and expand upon our existing customer base and develop business with new customers. 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

Our strong product and solutions portfolio is key to building and maintaining our marquee base of customers. 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 that addresses a broad range of applications, frequencies, capacities and network topologies.

- *Broad product and solution portfolio.* We offer a comprehensive suite of wireless transmission systems for microwave and millimeter wave networking applications. These solutions utilize a wide range of transmission frequencies, ranging from 5 GHz to 90 GHz, and can deliver a wide range of transmission capacities, ranging up to 20 Gigabits per second (Gbps). The major product families included in these solutions are CTR 8000, WTM 4000 and AviatCloud. Our CTR 8000 platform merges the functionality of an indoor microwave modem unit and a cell site router into a single integrated solution, simplifying IP/MPLS deployments and creating a better performing network. The newest addition to our product portfolio is the WTM 4000, the highest capacity microwave radio ever produced, and purpose built for software-defined networks (“SDN.”) SDN technology is an approach to networking management that enables dynamic, programmatically efficient networking configuration in order to improve networking performance and monitoring, making it more like cloud computing than traditional networking management. We have now introduced multiple important variants to the WTM 4000 platform; WTM4100 & 4200 providing single and dual frequency microwave links with advanced XPIC and MIMO capabilities; WTM4500 for multi-channel aggregation of microwave channels in long distance applications; WTM4800 is the latest addition to address 5G network requirements and is capable of operating in the 80GHz E Band at up to 20Gbps capacity, with a unique Multi-Band capability which simultaneously uses microwave and E Band frequencies for maximum robustness. WTM 4800 is the industry’s only single box multi-band solution for lowest total cost of ownership deployments. To address the issues of operational complexity in our customers’ networks, AviatCloud is a platform with secure hosted software and services to automate networks and their operations.
- *Low total cost of ownership.* Our wireless-based solutions are focused on achieving a 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.

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 in customer locations and include, but not limited to, Canada, Mexico, Kenya, India, Saudi Arabia, Australia, New Zealand, and Singapore.

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 focused towards large and complex projects in national security and government-related applications. 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 introduced a direct online sales option through our online "Aviat Store" for our WTM radio platform, initially in North America and targeted at wireless internet service providers delivering broadband services in rural and underserved areas. We provide online design tools for radio link planning and on-line ordering tools, which we fulfill directly from our Aviat Store with multiple options of product available for next day shipment. Shipments from Aviat Store commenced late in 2018.

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 American Act.

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 was approximately $225 million at July 2, 2021 and $210 million at July 3, 2020 consisting primarily of contracts or purchase orders for both product and service deliveries and extended service warranties. Services include management's initial estimate of the value of a customer's commitment under a services contract. The calculation used by management involves estimates and judgments to gauge the extent of a customer's commitment, including the type and duration of the agreement, and the presence of termination charges or wind down costs. Contract extensions and increases in scope are treated as backlog only to the extent of the new incremental value. 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. Backlog estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidation, adjustments for revenue not materialized and adjustments for currency.

We expect to substantially deliver against the backlog as of July 2, 2021 during fiscal 2022, 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 as well as long-term projects that could take more than a year to complete. 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.

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.

Mobile Telephone Networks Group ("MTN Group") in Africa accounted for 11% of fiscal 2019 total revenue. We have entered into separate and distinct contracts with MTN Group as well as separate arrangements with MTN Group subsidiaries. No customer was greater than 10% of total revenue for fiscal 2021 or 2020.

Competition

The microwave and millimeter wave wireless networking business is a specialized segment of the 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 Corporation and Nokia Corporation, as well as a number of smaller microwave specialist companies such as Ceragon Networks Ltd. and SIAE Microelectronica S.p.A.

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 product 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 key technology areas and innovation to differentiate our overall portfolio from our competition. The majority of such research and development resources will be focused on technologies in microwave and millimeter wave RF, digital signal processing, networking protocols and software applications.

Our research and development expenditures totaled $21.8 million, or 7.9% of revenue, in fiscal 2021, $19.3 million, or 8.1% of revenue, in fiscal 2020, and $21.1 million, or 8.7% of revenue, in fiscal 2019.

Research and development are primarily directed to the development of new products and to build 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 totaled 154 employees as of July 2, 2021, and were located primarily in New Zealand and Slovenia.

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 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 customers' requirements or regulatory restrictions and to meet performance and quality specifications and delivery schedules.

Our strategy for procuring raw material and supplies includes dual sourcing on strategic assemblies and components. In general, we believe this reduces our risk with regard to the potential financial difficulties in our supply base. In some instances, we are dependent upon one or a few sources, either because of the specialized nature of a particular item or because of local content preference requirements pursuant to which we operate on a given project. Examples of sole or limited source categories include metal fabrications and castings, for which we own the tooling and therefore limit our supplier relationships, and 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 sites which would also mitigate COVID-19 risks.

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 currently experienced by high-tech manufacturing companies and are due primarily to the highly technical nature of many of our purchased components.

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 2, 2021, we held 434 U.S. patents and 462 international patents and had 14 U.S. patent applications pending and 19 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 could impact our business, financial condition and results of operations.

We have a comprehensive policy and procedures in effect concerning conflict minerals compliance.

Employees

As of July 2, 2021, we had 687 employees, compared with 674 employees at the end of fiscal 2020, and 708 employees at the end of fiscal 2019. As of July 2, 2021, of the 687 employees, 661 were full-time employees with 278 located in the U.S. 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 August 25, 2021, are as follows:

Name and Age	Position Currently Held and Past Business Experience
Peter A. Smith, 55	Mr. Smith was appointed President and Chief Executive Officer in January 2020. Prior to joining Aviat Networks, Mr. Smith served as Senior Vice President, US Windows and Canada for Jeld-Wen from March 2017 to December 2019. Prior to Jeld-Wen, he served as President of Polypore International’s Transportation and Industrial segment from October 2013 to March 2017. Previously, he served as Chief Executive Officer and a director of Voltaix Inc. from September 2011 to October 2013. Earlier in his career, Mr. Smith held various executive leadership positions at Fortune 100 and Fortune 500 companies, including Cooper Industries, Dover Knowles Electronics and Honeywell Specialty Materials. Mr. Smith also served on the board of Soleras Advanced Coatings from August 2015 to October 2018. He has both a Bachelor of Science degree in Material (Ceramics) Engineering and PhD in Material Science and Engineering from Rutgers University, and holds a Master of Business Administration degree from Arizona State University.
Eric Chang, 48	Mr. Chang was appointed Senior Vice President and Chief Financial Officer in April 2020. Mr. Chang joined Aviat Networks in February 2016 as our Vice President, Corporate Controller and Principal Accounting Officer. Prior to joining Aviat Networks, from 2013 to 2016, Mr. Chang was the Senior Director, Corporate Controller at Micrel, Incorporated. From 2007 to 2013, he served as Senior Director, Assistant Controller and Business Unit Controller at Atmel Corporation. From 2003 to 2007, he was at Ernst & Young LLP, most recent as Senior Audit Manager. Mr. Chang is a Certified Public Accountant in California and holds a Bachelor of Science degree in Accounting and Computer Information Systems from Indiana University Kelley School of Business.
Bryan C. Tucker, 53	As Senior Vice President Americas, Mr. Tucker is responsible for sales and services in the Americas. Mr. Tucker joined the Company in 2005, and since, has served in a number of roles for Aviat Networks and its predecessor companies Harris Stratex Networks and Harris Microwave Communications Division (“MCD”). For example, as senior director for North America Operations, Mr. Tucker spearheaded major transitions in ERP systems, product lines and operational locations. He also led the company’s post-merger systems unification with Harris MCD in 2007. Before joining Aviat Networks, Mr. Tucker worked for Sony Corp. as director of Manufacturing Engineering and Maintenance for two production facilities. Overall, Mr. Tucker has more than 24 years of experience in engineering and manufacturing operations with high-tech companies. He has a bachelor’s degree in electrical engineering from the University of Florida, is Six Sigma Certified and has pursued postgraduate studies/research in semiconductor physics at Georgia Tech.

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.

Website Access to Aviat Networks’ Reports; Available Information

We maintain a website 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 website 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.

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*

The nature of the business activities conducted by the Company subjects us to certain hazards and risks. The following is a summary of some of the material risks relating to the Company’s business activities. Other risks are described in “Item 1. Business,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.” 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 in our other public filings.

We face 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 not currently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks occur, our financial condition and results of operations could be materially and adversely affected. In that case, the market price of the Company’s common stock could decline.

Risk Factors Summary

The following is a summary of the principal risks that could adversely affect our business, operations and financial results.

Business and Operational Risk Factors

- Our sales cycle may be lengthy, and the timing of sales, along with additional services such as network design, 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.
- The ongoing global COVID-19 pandemic could adversely affect our business, financial condition and results of operations.
- 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 must continue to increase our revenues and/or reduce costs if we hope to maintain profitability.
- Our quarterly results may be volatile, which can adversely affect the trading price of our common stock.
- Our success will depend on new products introduced to the marketplace in a timely manner, successfully completing product transitioning and achieving customer acceptance.
- We rely on various third-party service partners to help complement our global operations, and failure to adequately manage these relationships could adversely impact our financial results and relationships with customers.
- We must respond to rapid technological change and comply with evolving industry standards and requirements for our products to be successful.
- Our average sales prices may decline in the future.
- Credit and commercial risks and exposures could increase if the financial condition of our customers declines.
- Our restructuring actions could harm our relationships with our employees and impact our ability to recruit new employees.
- Our business could be adversely affected if we are unable to attract and retain key personnel.
- We face strong competition for maintaining and improving our position in the market, which can adversely affect our revenue growth and operating results.
- Our ability to sell our products and compete successfully is highly dependent on the quality of our customer service and support, and our failure to offer high quality service and support could have a material adverse effect on our sales and results of operations.
- Product performance problems, including undetected errors in our hardware or software, or deployment delays could harm our business and reputation.
- 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 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 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.
- 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.
- We continually evaluate strategic transaction opportunities which could involve merger, divestiture, sale and/or acquisition activities that could disrupt our operations and harm our operating results.
- If we fail to develop and maintain distribution and licensing relationships, our revenue may decrease.

Financial and Macroeconomic Risk Factors

- 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 may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.
- The effects of 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.
- Changes in tax laws, treaties, rulings, regulations or agreements, or their interpretation in any country in which we operate; the loss of a major tax dispute; a successful challenge to our operating structure, intercompany pricing policies or the taxable presence of our key subsidiaries in certain countries; or other factors could cause volatility in our effective tax rate and could adversely affect our operating results.
- 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.
- We may be adversely affected by fluctuations in currency exchange rates.

Legal and Regulatory Risk Factors

- Continued tension in U.S.-China trade relations may adversely impact our supply chain operations and business.
- Changes in accounting standards issued by the Financial Accounting Standards Board (“FASB”) could adversely affect our financial condition and results of operations, and could require a significant expenditure of time, attention and resources, especially by senior management.
- 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.
- 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.
- 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 or potential liabilities in the future.
- There are inherent limitations on the effectiveness of our controls.
- Our products are used in critical communications networks which may subject us to significant liability claims.
- 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.
- 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.

General Risk Factors

- Natural disasters or other catastrophic events could have an adverse effect on our business.
- We cannot guarantee that our stock repurchase program will be fully implemented or that it will enhance long-term stockholder value.
- 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.

For a more complete discussion of the material risks facing our business, see below.

Business and Operational Risk Factors

Our sales cycle may be lengthy, and the timing of sales, along with additional services such as network design, 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 experience 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, usually taking several months or more. 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. Once a purchase agreement has been executed, the timing and amount of revenue, if applicable, may remain difficult to predict. Our typical product sales cycle, which results in our products being designed into our customers' networks, can take 12 to 24 months. A number of factors contribute to the length of the sales cycle, including technical evaluations of our products and the design process required to integrate our products into our customers' networks. The completion of services such as 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.

Due to the challenges from 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.

The ongoing global COVID-19 pandemic could adversely affect our business, financial condition and results of operations.

In March 2020, the World Health Organization characterized the current respiratory illness caused by novel coronavirus disease, known as COVID-19, as a pandemic. The pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the COVID-19 pandemic. The COVID-19 pandemic has, and is expected to continue to have, an impact on our operations, supply chains and distribution systems. The extent to which the COVID-19 pandemic continues to affect our business, prospects and results of operations will depend on future developments, many of which are highly uncertain, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, including ongoing vaccination efforts, any new variant strains of the underlying virus and how quickly and to what extent normal economic and operating activities can resume. Management continues to monitor the impact of COVID-19 on the Company's financial condition, liquidity, operations, suppliers, industry, and workforce.

Our first priority remains the health and safety of our employees and their families. Employees whose tasks can be done off-site have been instructed to work from home. Our sites support essential businesses and remain operational. We are maintaining social distancing for workers on-site and have enhanced cleaning protocols and usage of personal protective equipment, where appropriate. There is no certainty that such measures will be sufficient to mitigate the risks posed by COVID-19, and our ability to perform critical functions could be harmed as a result.

Depending on pandemic-related factors like the uncertain duration of temporary manufacturing restrictions as well as our ability to perform field services during shelter in place orders, we could/may continue to experience constraints and delays in fulfilling customer orders in future periods.

While the ultimate effects of the pandemic on our business are uncertain, the pandemic and related government actions, including restrictions on travel, temporary closure of businesses and stay at home orders have, and are likely to continue to have, an adverse impact on global economic conditions and consumer confidence and spending, which could materially affect demand for our products. Our customers could become more conservative in response to the pandemic and economic conditions and may seek to reduce their purchases. Our results of operations depend upon, among other things, our ability to maintain and increase sales volume with existing customers, our ability to attract new customers and the financial condition of our customers. Decreases in demand for our products without a corresponding decrease in costs would negatively impact our operating margins and financial results.

We are monitoring, assessing and adapting to the situation and have prepared for implications to our business, supply chain and customer demand. We expect these challenges to continue until business and economic activities return to more normal levels. The financial results for the fiscal year reflect some of the reduced activity experienced during the period in various locations around the world and are not necessary indicative of the results for the next fiscal period or fiscal year.

Our business and operating results are affected by the global business environment and economic conditions, including changes in interest rates, availability of capital from credit providers, consumer confidence, rates of inflation, geopolitical issues and other macro-economic factors. The United States and global economies continue to experience a period of economic and financial uncertainty, in part due to COVID-19 and the related public health actions taken by many governments and businesses. An economic downturn, whether related to COVID-19 or otherwise, could lead to decreased customer demand, inability to execute installs and/or service, or the inability of our customers to pay for our products, the inability of suppliers to deliver the components necessary to manufacture our products, and reduced access to capital from credit providers and through the capital markets, among other things, which could adversely affect our business, results of operations and financial condition.

To the extent the COVID-19 pandemic adversely affects the global economy moving forward, and/or adversely affects our business, operations or financial performance, it may also have the effect of increasing the likelihood and/or magnitude of other risks described in the “Risk Factors” set forth in this Item 1A.

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, 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 $2.3 million, $4.0 million and $0.7 million in fiscal 2021, 2020 and 2019, 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.

We must continue to increase our revenues and/or reduce costs if we hope to maintain profitability.

As measured under U.S. generally accepted accounting principles (“U.S. GAAP”), we recorded net income of $110.1 million in fiscal 2021, compared to $0.3 million in fiscal 2020 and $9.7 million in fiscal 2019. We generated cash from operations of $17.3 million, $17.5 million and $2.9 million in fiscal 2021, 2020 and 2019, respectively.

Throughout fiscal 2021, 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. In addition, we saw pricing pressures in all markets, particularly 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 maintain profitability.

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

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;
- maintaining appropriate inventory levels and purchase commitments;
- failure to realize expected cost improvement throughout our supply chain;
- order cancellations or postponements in product deliveries, including due to the COVID-19 pandemic, resulting in delayed revenue recognition;
- restructuring and streamlining of our operations;
- war and acts of terrorism;
- natural disasters;
- diseases or pandemics, such as the COVID-19 pandemic, and corresponding governmental actions;
- 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.

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 product 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 non-competitive or obsolete and result in significant reduction in orders from our customers and the loss of existing and prospective customers.

We rely on various third-party service partners to help complement our global operations, and failure to adequately manage these relationships could adversely impact our financial results and relationships with customers.

We rely on a number of third-party service partners, both domestic and international, to complement our global operations. We rely upon these partners for certain installation, maintenance, logistics and support functions. In addition, as our customers increasingly seek to rely on vendors to perform additional services relating to the design, construction and operation of their networks, the scope of work performed by our service partners is likely to increase and may include areas where we have less experience providing or managing such services. We must successfully identify, assess, train and certify qualified service partners in order to ensure the proper installation, deployment and maintenance of our products. The vetting and certification of these partners can be costly and time-consuming, and certain partners may not have the same operational history, financial resources and scale as we have. Moreover, certain service partners may provide similar services for other companies, including our competitors. We may not be able to manage our relationships with our service partners effectively, and we cannot be certain that they will be able to deliver services in the manner or time required, that we will be able to maintain the continuity of their services, or that they will adhere to our approach to ethical business practices. Our service partners may also experience challenges in providing services to us as a result of the impact of the COVID-19 pandemic. We may also be exposed to a number of risks or challenges relating to the performance of our service partners, including:

- delays in recognizing revenue;
- liability for injuries to persons, damage to property or other claims relating to the actions or omissions of our service partners;
- our services revenue and gross margin may be adversely affected; and
- our relationships with customers could suffer.

If we do not effectively manage our relationships with third-party service partners, or if they fail to perform these services in the manner or time required, our financial results and relationships with our customers could be adversely affected.

We must respond to rapid technological change and comply with evolving industry standards and requirements for our products to be successful.

The optical transport networking equipment market is characterized by rapid technological change, changes in customer requirements and evolving industry standards. We continually invest in research and development to sustain or enhance our existing products, but the introduction of new communications technologies and the emergence of new industry standards or requirements could render our products obsolete. Further, in developing our products, we have made, and will continue to make, assumptions with respect to which standards or requirements will be adopted by our customers and competitors. If the standards or requirements adopted by our prospective customers are different from those on which we have focused our efforts, market acceptance of our products would be reduced or delayed, and our business would be harmed.

We are continuing to invest a significant portion of our research and development efforts in the development of our next-generation products. We expect our competitors will continue to improve the performance of their existing products and introduce new products and technologies and to influence customers' buying criteria so as to emphasize product capabilities that we do not, or may not, possess. To be competitive, we must anticipate future customer requirements and continue to invest significant resources in research and development, sales and marketing, and customer support. If we do not anticipate these future customer requirements and invest in the technologies necessary to enable us to have and to sell the appropriate solutions, it may limit our competitive position and future sales, which would have an adverse effect on our business and financial condition. We may not have sufficient resources to make these investments and we may not be able to make the technological advances necessary to be competitive.

Our average sales prices may decline in the future.

We have experienced, and could 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, to reduce the 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.

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, including the Company, 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. Our customers' financial conditions face additional challenges in many emerging markets, where our customers are being affected not only by recession, but by deteriorating local currencies and a lack of credit and, more broadly, by the COVID-19 pandemic and related economic effects. If customers fail to meet their obligations to us, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our results of operations and financial position.

Our 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 "Risk Factors - Business and Operational Risk Factors - Because a significant amount of our revenue may come from a limited number of customers, the termination of any of these customer relationships may adversely affect our business." Our historical accounts receivable balances have been concentrated in a small number of significant customers. Unexpected adverse events impacting the financial condition of our customers, bank failures or other unfavorable regulatory, economic or political events in the countries in which we do business may impact collections and adversely impact our business, require increased bad debt expense or receivable write-offs and adversely impact our cash flows, financial condition and operating results, which could also result in a breach of our bank covenants.

Our 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 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.

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 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.

Our ability to sell our products and compete successfully is highly dependent on the quality of our customer service and support, and our failure to offer high quality service and support could have a material adverse effect on our sales and results of operations.

Once our products are delivered, our customers depend on our service and support to resolve any issues relating to our products. Our support personnel includes employees in various geographic locations, who provide general technical support to our customers. A high level of support is important for the successful marketing and sale of our products. If we do not effectively help our customers quickly resolve issues or provide effective ongoing support, it could adversely affect our ability to sell our products to existing customers as well as demand for maintenance and renewal contracts and could harm our reputation with existing and potential customers.

Product performance problems, including undetected errors in our hardware or software, or deployment delays could harm our business and reputation.

The development and production of products with high technology content is complicated and often involves problems with hardware, software, components and manufacturing methods. Complex hardware and software systems, such as our products, can often contain undetected errors or bugs when first introduced or as new versions are released. In addition, errors associated with components we purchase from third parties, including customized components, may be difficult to resolve. We have experienced issues in the past in connection with our products, including failures due to the receipt of faulty components from our suppliers and performance issues related to software updates. From time to time we have had to replace certain components or provide software remedies or other remediation in response to errors or bugs, and we may have to do so again in the future. In addition, performance issues can be heightened during periods where we are developing and introducing multiple new products to the market, as any performance issues we encounter in one technology or product could impact the performance or timing of delivery of other products. Our products may also suffer degradation of performance and reliability over time.

If reliability, quality, security or network monitoring problems develop, a number of negative effects on our business could result, including:

- reduced orders from existing customers;
- declining interest from potential customers;
- delays in our ability to recognize revenue or in collecting accounts receivables;
- costs associated with fixing hardware or software defects or replacing products;
- high service and warranty expenses;
- delays in shipments;
- high inventory excess and obsolescence expense;
- high levels of product returns;
- diversion of our engineering personnel from our product development efforts; and
- payment of liquidated damages, performance guarantees or similar penalties.

Because we outsource the manufacturing of certain components of our products, we may also be subject to product performance problems as a result of the acts or omissions of third parties, and we may not have adequate compensating remedies against such third parties.

From time to time, we encounter interruptions or delays in the activation of our products at a customer’s site. These interruptions or delays may result from product performance problems or from issues with installation and activation, some of which are outside our control. If we experience significant interruptions or delays that we cannot promptly resolve, the associated revenue for these installations may be delayed or confidence in our products could be undermined, which could cause us to lose customers, fail to add new customers, and consequently harm our financial results.

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 customers’ needs, including ours, during periods of excess demand.

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. There can be no assurance that we will not encounter problems with our contract manufacturer related to 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 they do 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.

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 2019 we had one customer in Africa, MTN Group, that accounted for 11% of our total revenue, respectively. No customer accounted for more than 10% of our total revenue in fiscal 2021 or 2020. 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.

In addition, 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, 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.

It is possible that a significant portion of our future product sales could become even more concentrated in a limited number of customers due to the factors described above. 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, the consolidation of existing customers, or our inability to gain additional customers could result in declines in our revenue or an inability to grow revenue.

We continually evaluate strategic transaction opportunities which could involve merger, divestiture, sale 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. Strategic transactions involve numerous risks, including the following:

- difficulties in integrating the operations, systems, technologies, products, and personnel of the combined 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 business combinations, sales, divestitures and /or restructurings;
- 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 our company or the companies with which we engage in strategic transactions following and continuing after announcement of an anticipated strategic transaction.

Strategic transactions may also cause us to:

- issue common stock that would dilute our current stockholders or cause a change in control of the combined company;
- 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, restructurings, sales and acquisitions of high-technology companies are inherently risky and subject to many factors outside of our control. No assurance can be given that any future strategic transactions will be successful and will not materially adversely affect our business, operating results or financial condition. Failure to manage and successfully complete a strategic transaction could materially harm our business and operating results. Even when an acquired or acquiring 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 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.

Financial and Macroeconomic Risk Factors

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 2021, our sales to international customers accounted for 34% 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;
- the conduct of unethical business practices in developing countries;
- general economic and geopolitical conditions, including inflation and trade relationships;
- restrictions on travel to locations where we conduct business, including those imposed due to COVID-19;
- 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.

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 have no assurance 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 ownership of our existing stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders.

The effects of 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 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.

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, economic conditions in certain markets could materially adversely affect our suppliers' access to capital and liquidity with which to maintain their inventories, production levels, 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, 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 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.

Changes in tax laws, treaties, rulings, regulations or agreements, or their interpretation in any country in which we operate; the loss of a major tax dispute; a successful challenge to our operating structure, intercompany pricing policies or the taxable presence of our key subsidiaries in certain countries; or other factors could cause volatility in our effective tax rate 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;
- our 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, treaties, rulings, regulations or agreements or the interpretation of such tax laws, treaties, rulings, regulations or agreements, including the impact of the Tax Cuts and Jobs Act of 2017 and any new administrations;

- the resolution of issues arising from tax audits with various tax authorities, including the loss of a major tax dispute;
- local tax authority challenging our operating structure, intercompany pricing policies or the taxable presence of our key subsidiaries in certain countries;
- 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 deduction 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 results of operations.

We believe that these Tax Benefits are a valuable asset for us. On September 6, 2016, the Board adopted certain amendments to our Amended and Restated Certificate of Incorporation, as amended (the “Charter Amendments”), to protect our tax benefits. In addition, on March 3, 2020, the Board approved a Tax Benefit Preservation Plan (as amended and restated on August 27, 2020, the “Plan”) in an effort to protect our Tax Benefits during the effective period of the Plan. We submitted the Plan to a stockholder vote and our stockholders approved the plan at the 2020 Annual Meeting of Stockholders. 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 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.

We may be adversely affected by fluctuations in currency exchange rates.

A portion of our sales and expenses stem from countries outside of the United States, and are in currencies other than U.S. dollars, and therefore subject to foreign currency fluctuation. Accordingly, fluctuations in foreign currency rates could have a material impact on our financial results in future periods. We currently enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on certain non-functional currency account balances, and also to reduce the volatility of cash flows primarily related to forecasted foreign currency revenue and expenses. These forward contracts reduce the impact of currency exchange rate movements on certain transactions, but do not cover all foreign-denominated transactions and therefore do not entirely eliminate the impact of fluctuations in exchange rates on our results of operations and financial condition.

Legal and Regulatory Risk Factors

Continued tension in U.S.-China trade relations may adversely impact our supply chain operations and business.

The U.S. government has taken certain actions that change U.S. trade policies, including tariffs that affect certain products manufactured in China. Some components manufactured by our Chinese suppliers are subject to tariffs if imported into the United States. The Chinese government has taken certain reciprocal actions, including recently imposed tariffs affecting certain products manufactured in the United States. Certain of our products manufactured in our U.S. operations have been included in the tariffs imposed on imports into China from the United States. Although some of the products and components we import are affected by the tariffs, at this time, we do not expect these tariffs to have a material impact on our business, financial condition or results of operations.

It is unknown whether and to what extent additional new tariffs (or other new laws or regulations) will be adopted that increase the cost or feasibility of importing and/or exporting products and components from China to the United States and vice versa. Further, the effect of any such new tariffs or retaliatory actions on our industry and customers is unknown and difficult to predict. As additional new tariffs, legislation and/or regulations are implemented, or if existing trade agreements are renegotiated or if China or other affected countries take retaliatory trade actions, such changes could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") could adversely affect our financial condition and results of operations, and could require a significant expenditure of time, attention and resources, especially by senior management.

Our accounting and financial reporting policies conform to U.S. GAAP, which are periodically revised and/or expanded. The application of accounting principles is also subject to varying interpretations over time. Accordingly, we are required to adopt new or revised accounting standards or comply with revised interpretations that are issued from time to time by various parties, including accounting standard setters and those who interpret the standards, such as the FASB and the SEC and our independent registered public accounting firm. New financial accounting standards which may be adopted by FASB could result in significant changes to our accounting and/or financial reporting practices that could adversely affect our financial condition and results of operations.

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 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 may be affected by the allocation and auction of the radio frequency spectrum by governmental authorities both in the U.S. and internationally. The unavailability of sufficient radio frequency spectrum may inhibit the future growth of wireless communications networks. In addition, to operate in a jurisdiction, we must obtain regulatory approval for our products and each jurisdiction in which we market our products has its own regulations governing radio communications. If we are unable to obtain sufficient allocation of radio frequency spectrum by the appropriate governmental authority or obtain the proper regulatory approval for our products, our business, financial condition and results of operations may be harmed.

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

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, 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.

There are inherent limitations on the effectiveness of our controls.

We do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that resource constraints exist, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people, or by management's 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. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with policies or procedures. If our controls become inadequate, we could fail to meet our financial reporting obligations, our reputation may be adversely affected, our business and operating results could be harmed, and the market price of our stock could decline.

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. Due to the COVID-19 pandemic, an increased number of our employees are working from home and connecting to our networks remotely, which we believe may further increase the risk of, and our vulnerability to, a cyber-attack or breach on our network.

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.

As cyber-attacks become more sophisticated, the need to develop our infrastructure to secure our business can lead to increased cybersecurity protection costs. Such costs may include making organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants. These efforts come at the potential cost of revenues and human resources that could be utilized to continue to enhance our product offerings, and such increased costs may adversely affect our operating margins.

Additionally, certain of our suppliers have in the past and may in the future experience cybersecurity attacks that can constrain their capacity and ability to meet our product demands. If our contract manufacturers and suppliers suffer future cyberattacks, 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.

General Risk Factors

Natural disasters or other catastrophic events could have an adverse effect on our business.

Natural disasters, such as hurricanes, earthquakes, fires, extreme weather conditions and floods, could adversely affect our operations and financial performance. Such events could result in physical damage to one or more of our facilities, the temporary closure of one or more of our facilities or those of our suppliers, a temporary lack of an adequate work force in a market, a temporary or long-term disruption in the supply of products from local or overseas suppliers, a temporary disruption in the transport of goods from overseas, and delays in the delivery of goods. Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have an adverse impact on customer demand. As a result of any of these events, we may be required to suspend operations in some or all of our locations, which could have an adverse effect on our business, financial condition, results of operations, and cash flows. These events could also reduce demand for our products or make it difficult or impossible to receive components from suppliers. Although we maintain business interruption insurance and other insurance intended to cover some or all of these risks, such insurance may be inadequate, whether because of coverage amount, policy limitations, the financial viability of the insurance companies issuing such policies, or other reasons.

We cannot guarantee that our stock repurchase program will be fully implemented or that it will enhance long-term stockholder value.

In May 2018, the board of directors of the Company (the ("Board of Directors" or "Board")) approved a stock repurchase program for the repurchase of up to $7.5 million. Our repurchase program even if fully implemented, may not enhance long-term stockholder value. During fiscal 2021, 2020 and 2019 we repurchased $0.8 million, $1.8 million and $2.3 million of our common stock in the open market respectively. As of July 2, 2021, $2.6 million remained available for repurchase under our stock repurchase program.

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 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 2, 2021, we leased approximately 164,000 square feet of facilities worldwide, with approximately 37% in the United States, mostly in California and Texas. Our corporate headquarters is located in Austin, Texas, and consists of approximately 18,000 square feet of office space. We also lease approximately 24,000 square feet of office, assembly facilities and warehouse in multiple locations in Texas and 19,000 square feet of office space in Milpitas, California. Internationally, we lease approximately 103,000 square feet of facilities throughout Europe, North America, Africa and Asia regions, including offices in Singapore, Slovenia, Philippine Islands, India, Mexico, Canada, South Africa, Ghana, Ivory Coast, Kenya, Nigeria, Algeria, Congo, France, Netherlands, 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 leases, see “Note 4. Leases” 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 damages from a customer alleging that certain of our products were defective which we settled for an immaterial amount during the third quarter of 2021.

In March 2016, an enforcement action by the Indian Department of Revenue, Ministry of Finance was brought against our subsidiary Aviat Networks (India) Private Limited (“Aviat India”) relating to the non-realization of intercompany receivables and non-payment of intercompany payables, which originated from 1999 to 2012, within the time frames dictated by the Indian regulations under the Foreign Exchange Management Act ("FEMA"). In November 2017, the Indian Department of Revenue, Ministry of Finance also initiated a similar action against Telsima Communications Private Limited (“Telsima India”), a subsidiary of the Company, relating to the non-realization of intercompany receivables and non-payment of intercompany payables which originated from the period prior to our acquisition of Telsima India in February 2009. In September 2019, our directors of Aviat India appeared before the Ministry of Finance Enforcement Directorate. No settlement offers were discussed at the meeting and the matter is still ongoing with no subsequent hearing date currently scheduled. We have accrued an immaterial amount representing the estimated probable loss for which we would settle the matter. We currently cannot form an estimate of the range of loss in excess of our amounts already accrued. If the outcome of this matter is greater than the current immaterial amount accrued, we intend to dispute it vigorously.

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 significant 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 on 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 20, 2021, there were 2,057 holders of record of our common stock.

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.

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

Sales of Unregistered Securities

On April 13, 2021, we filed a registration statement on Form S-3 with the SEC using a "shelf" registration process. When we utilize the shelf registration we will be able to, from time to time, offer and sell, either individually or in combination, in one or more offerings, up to a total dollar amount of $200 million of any combination of the securities described in the shelf registration statement or a related prospectus supplement. During fiscal 2021, we did not issue or sell any unregistered securities.

Issuer Repurchases of Equity Securities

In May 2018, our Board of Directors approved a stock repurchase program, which does not have an expiration date, for the repurchase of up to $7.5 million of our common stock. The stock repurchase program was suspended temporarily between February 2020 and February 2021. During fiscal 2021, our Board of Directors voted to re-instate our stock repurchase program and we repurchased 19,587 shares of our common stock in the open market for an aggregate purchase price, including commissions, of $0.8 million. These shares were recorded as treasury stock and we do not anticipate retiring them. Treasury stock did not participate in the two-for-one stock split in the form of a stock dividend paid on April 7, 2021. As of July 2, 2021, $2.6 million remained available for repurchases under our stock repurchase program.

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Program	Approximate dollar Value of Shares that May Yet be Repurchased Under the Program [(1)]
				(in thousands)
April 3, 2021 through April 30, 2021	—	—	—	$ 2,956
May 1, 2021 through May 28, 2021	11,287	$ 29.10	11,287	$ 2,627
May 29, 2021 through July 2, 2021	—	—	—	$ 2,627
Total	11,287			

(1) In May 2018, our Board of Directors approved a stock repurchase program, which does not have an expiration date, for the repurchase of up to $7.5 million of our common stock.

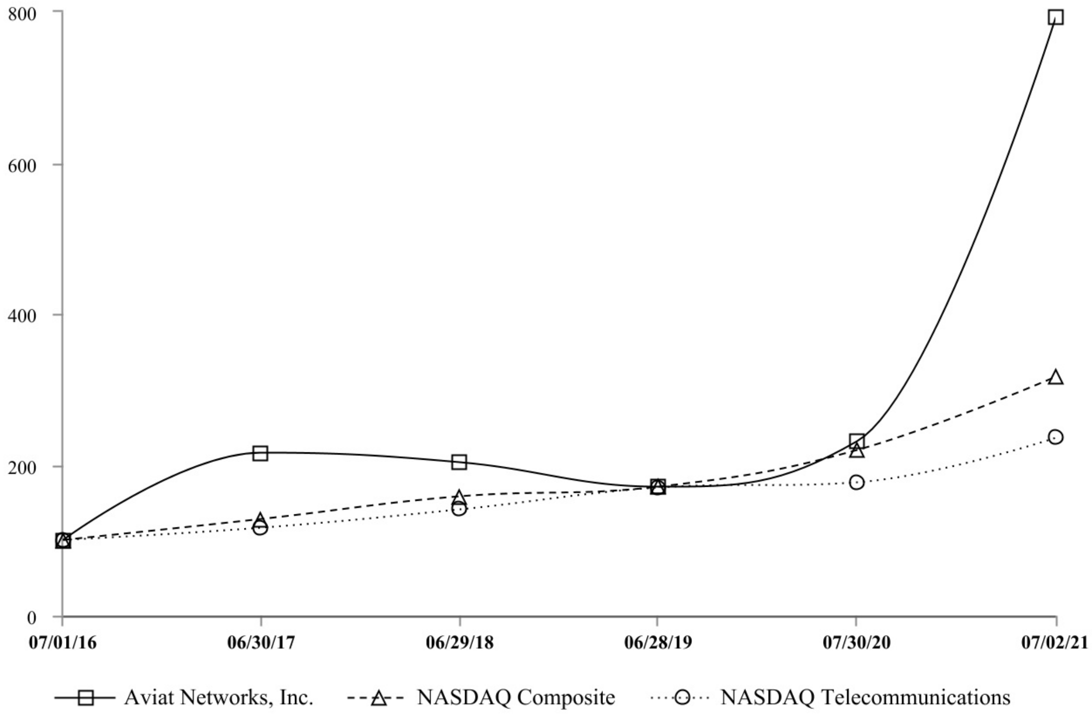
Performance Graph

The following graph and accompanying data compare 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 2, 2021. 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



	7/1/2016	6/30/2017	6/29/2018	6/28/2019	7/3/2020	7/2/2021
Aviat Networks, Inc.	$ 100.00	$ 216.15	$ 203.35	$ 170.19	$ 230.93	$ 792.05
NASDAQ Composite	$ 100.00	$ 127.76	$ 157.91	$ 170.20	$ 219.27	$ 316.73
NASDAQ Telecommunications	$ 100.00	$ 116.29	$ 140.68	$ 169.02	$ 176.50	$ 235.38

* Assumes (i) $100 invested on July 1, 2016 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. Data presented for fiscal years 2021, 2020 and 2019 are included elsewhere in this Annual Report on Form 10-K. This table should be read in conjunction with our other financial information, including "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes, included elsewhere in this Annual Report on Form 10-K.

	Fiscal Year Ended				
(In thousands, except per share amounts)	July 2, 2021	July 3, 2020	June 28, 2019	June 29, 2018	July 1, 2017
Revenue from product sales and services	$ 274,911	$ 238,642	$ 243,858	$ 242,506	$ 241,874
Cost of product sales and services	172,296	153,946	164,588	162,003	166,402
Income (loss) from continuing operations [1] [2]	110,139	257	9,738	2,302	(621)
Net income (loss) [1], [2], [3]	110,139	257	9,738	2,302	(621)
Net income attributable to noncontrolling interests, net of tax	—	—	—	457	202
Net income (loss) attributable to Aviat Networks	110,139	257	9,738	1,845	(823)
Basic and diluted net income (loss) per common share[4]:					
Net income (loss) - basic	$ 9.98	$ 0.02	$ 0.91	$ 0.17	$ (0.08)
Net income (loss) - diluted	$ 9.42	$ 0.02	$ 0.87	$ 0.16	$ (0.08)

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(1) Includes share-based compensation expense of $2.9 million, $1.7 million, $1.7 million, $2.4 million, and $2.1 million for fiscal 2021, 2020, 2019, 2018, and 2017, respectively.

(2) Includes restructuring charges of $2.3 million, $4.0 million, $0.7 million, $1.3 million, and $0.6 million for fiscal 2021, 2020, 2019, 2018, and 2017, respectively.

(3) Includes U.S. valuation allowance release of $92.2 million related to U.S. federal and state deferred tax assets for fiscal 2021.

(4) On April 7, 2021, we effected a stock split in the form of a stock dividend of all of the outstanding shares of our common stock at a ratio of two-for-one ("Stock Split"). The authorized number of shares of 300 million and par value per share of our common stock of $0.01 per share remained unchanged after the Stock Split.

	As of				
(In thousands)	July 2, 2021	July 3, 2020	June 28, 2019	June 29, 2018	July 1, 2017
Total assets	$ 297,653	$ 179,801	$ 169,193	$ 156,061	$ 152,576
Long-term liabilities	17,949	17,150	15,466	12,077	12,218

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

Overview of Business; Operating Environment and Key Factors Impacting Fiscal 2021 and 2020 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 July 1, 2022 is referred to as "fiscal 2022" or "2022"; our fiscal year ended July 2, 2021 is referred to as "fiscal 2021" or "2021"; our fiscal year ended July 3, 2020 is referred to as "fiscal 2020" or "2020"; and our fiscal year ended June 28, 2019 is referred to as "fiscal 2019" or "2019." Our fiscal year ends on the Friday nearest to June 30. Fiscal 2021 presented included 52 weeks while fiscal 2020 included 53 weeks and fiscal 2019 included 52 weeks. This one week difference between fiscal 2021 and fiscal 2020 impacts the comparison of both revenue and expenses.

Overview

We achieved revenue growth of 15.2% in fiscal 2021. We anticipate further revenue growth in fiscal 2022. We continue to have a strong backlog entering fiscal 2022 and we anticipate continuing our strong momentum across all verticals. We have made inroads into the U.S. rural broadband and wireless internet service provider areas and there is now further evidence of investment to support 5G deployments with our U.S. service provider customers. Our international sales grew in fiscal 2021.

In March 2020, the World Health Organization characterized the current respiratory illness caused by novel coronavirus disease, known as COVID-19, as a pandemic. The pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the COVID-19 pandemic. The COVID-19 pandemic has had and is likely to continue to have an impact on our operations, supply chains and distribution systems. The COVID-19 pandemic has led to an increase in our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking or requiring. The extent to which the COVID-19 pandemic impacts our business, prospects and results of operations will depend on future developments, which are highly uncertain and cannot be predicted with certainty, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, including ongoing vaccination efforts, any new variant strains of the underlying virus and how quickly and to what extent normal economic and operating activities can resume. Management is actively monitoring the impact of the COVID-19 pandemic on our financial condition, liquidity, operations, suppliers, industry, and workforce.

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

The impact to our supply chain lead times and ability to fulfill orders was minimal for the year ended July 2, 2021. However, depending on pandemic-related factors such as constraints of supply of certain component parts, uncertain duration of temporary manufacturing restrictions and our ability to perform field services during shelter in place orders, we could experience constraints and delays in fulfilling customer orders in future periods. We are monitoring, assessing and adapting to the situation and preparing for possible implications to our business, supply chain and customer demand. We expect the potential for these challenges to continue until business and economic activities return to more normal levels. The financial results for the year ended July 2, 2021 reflect some of the reduced activity experienced during the period in various locations around the world and are not necessarily indicative of the results for the next fiscal period or fiscal year.

Operations Review

The market for mobile backhaul continued to be our primary addressable market segment globally in fiscal 2021. In North America, we supported 5G and long-term evolution ("LTE") deployments of our mobile operator customers, public safety network deployments for state and local governments, and private network implementations for utilities and other customers. In international markets, our business continued to rely on a combination of customers increasing their capacity to handle subscriber growth, the ongoing build-out of 3G deployments, 5G deployments and LTE deployments. Our position continues to be to support our customers for 5G and LTE readiness and ensure that our technology roadmap is well aligned with evolving market requirements. We continue to find that our strength in turnkey and after-sale support services is a differentiating factor that wins business for us and enables us to expand our business with existing customers in all markets. However, as disclosed in "Overview" 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 the Middle East, (2) Europe and Russia and (3) Latin America and Asia Pacific. Revenue by region for fiscal 2021, 2020 and 2019 and the related changes are shown in the table below:

	Fiscal Year			$ Change		% Change	
(In thousands, except percentages)	2021	2020	2019	2021/2020	2020/2019	2021/2020	2020/2019
North America	$ 183,071	$ 151,709	$ 132,884	$ 31,362	$ 18,825	20.7 %	14.2 %
Africa and the Middle East	44,023	37,595	48,305	6,428	(10,710)	17.1 %	(22.2)%
Europe and Russia	8,826	11,157	16,933	(2,331)	(5,776)	(20.9)%	(34.1)%
Latin America and Asia Pacific	38,991	38,181	45,736	810	(7,555)	2.1 %	(16.5)%
Total Revenue	$ 274,911	$ 238,642	$ 243,858	$ 36,269	$ (5,216)	15.2 %	(2.1)%

Our revenue from North America increased by $31.4 million, or 20.7%, in fiscal 2021 compared with fiscal 2020. The increase in North America revenue during fiscal 2021 was due to revenue growth with private network customers, as well as increased sales to mobile operators. Revenue from North America increased $18.8 million, or 14.2%, in fiscal 2020 compared with fiscal 2019. The increase in North America revenue during fiscal 2020 was due to stronger order flow from private network customers, as well as increased sales to mobile operators.

Our revenue from Africa and the Middle East increased by $6.4 million, or 17.1%, in fiscal 2021 compared with fiscal 2020. The increase in revenue was primarily due to increased sales to mobile operators in the region. Revenue from Africa and the Middle East decreased $10.7 million, or 22.2%, in fiscal 2020 compared with fiscal 2019. The decrease in revenue was primarily due to decreased sales to our mobile operator customers in the region.

Revenue from Europe and Russia decreased by $2.3 million, or 20.9%, in fiscal 2021 compared with fiscal 2020. The decrease in revenue was due to lower sales to mobile operator customers. Revenue in Europe and Russia decreased $5.8 million, or 34.1%, in fiscal 2020 compared with fiscal 2019. The decrease was due to lower sales to mobile operator customers.

Revenue in Latin America and Asia Pacific increased by $0.8 million, or 2.1%, in fiscal 2021 compared with fiscal 2020. The increase in revenue was primarily due to higher sales to mobile operator customers in Asia Pacific offset in part by decreased revenue in Latin America. Revenue from Latin America and Asia-Pacific decreased $7.6 million, or 16.5%, in fiscal 2020 compared with fiscal 2019. The decrease was primarily due to lower sales volume from certain mobile operator customers in Asia Pacific offset in part by increased revenue in Latin America.

	Fiscal Year			$ Change		% Change	
(In thousands, except percentages)	2021	2020	2019	2021/2020	2020/2019	2021/2020	2020/2019
Product sales	$ 185,787	$ 153,793	$ 156,724	$ 31,994	$ (2,931)	20.8 %	(1.9)%
Services	89,124	84,849	87,134	4,275	(2,285)	5.0 %	(2.6)%
Total Revenue	$ 274,911	$ 238,642	$ 243,858	$ 36,269	$ (5,216)	15.2 %	(2.1)%

Our revenue from product sales increased by $32.0 million, or 20.8%, in fiscal 2021 compared with fiscal 2020. Product volume increased with customers in North America and Middle East Africa, offset in part by small declines in the other international markets. Our services revenue increased by $4.3 million, or 5.0%, in fiscal 2021 compared with fiscal 2020 from increased sales in North America.

Our revenue from product sales decreased $2.9 million, or 1.9%, in fiscal 2020 compared with fiscal 2019. Product volume decreased with customers in international markets and was offset in part by increased product sales in North America. Our services revenue decreased by $2.3 million, or 2.6%, in fiscal 2020 compared with fiscal 2019. Decreased sales in international markets were offset in part by increased sales in North America.

Gross Margin

	Fiscal Year			$ Change		% Change	
(In thousands, except percentages)	2021	2020	2019	2021/2020	2020/2019	2021/2020	2020/2019
Revenue	$ 274,911	$ 238,642	$ 243,858	$ 36,269	$ (5,216)	15.2 %	(2.1)%
Cost of revenue	172,296	153,946	164,588	18,350	(10,642)	11.9 %	(6.5)%
Gross margin	$ 102,615	$ 84,696	$ 79,270	$ 17,919	$ 5,426	21.2 %	6.8 %
% of revenue	37.3 %	35.5 %	32.5 %				
Product margin %	39.1 %	38.0 %	33.9 %				
Service margin %	33.5 %	30.9 %	29.9 %				

Gross margin for fiscal 2021 increased by $17.9 million, or 21.2%, compared with fiscal 2020. Gross margin as a percentage of revenue for fiscal 2021 increased to 37.3%, compared with 35.5% in fiscal 2020, primarily due to higher volume of Private Network business, increased sales through Aviat Store which serves primarily the Rural Broadband, and wins with our multiband products and software sales.

Gross margin for fiscal 2020 increased $5.4 million, or 6.8%, compared with fiscal 2019. Gross margin as a percentage of revenue for fiscal 2020 increased to 35.5%, compared with 32.5% in fiscal 2019, primarily due to higher margin rates for product sales and implementation of cost savings initiatives. The increased volume of product sales in North America, which generally has a higher gross margin compared to international, contributed most of the overall gross margin improvement in fiscal 2020.

Research and Development Expenses

	Fiscal Year			$ Change		% Change	
(In thousands, except percentages)	2021	2020	2019	2021/2020	2020/2019	2021/2020	2020/2019
Research and development expenses	$ 21,810	$ 19,284	$ 21,111	$ 2,526	$ (1,827)	13.1 %	(8.7)%
% of revenue	7.9 %	8.1 %	8.7 %				

Our research and development (“R&D”) expenses increased by $2.5 million, or 13.1%, in fiscal 2021 compared with fiscal 2020. The increase was due to additional investments to support new product offerings.

Our R&D expenses decreased $1.8 million, or 8.7%, in fiscal 2020 compared with fiscal 2019. The decrease was primarily due to consolidation of product development, lower variable compensation and costs reduction initiatives associated with COVID-19, offset in part by expenses associated with one extra week in our fiscal 2020 calendar.

Selling and Administrative Expenses

	Fiscal Year			$ Change		% Change	
(In thousands, except percentages)	2021	2020	2019	2021/2020	2020/2019	2021/2020	2020/2019
Selling and administrative expenses	$ 56,324	$ 57,985	$ 56,055	$ (1,661)	$ 1,930	(2.9)%	3.4 %
% of revenue	20.5 %	24.3 %	23.0 %				

Our selling and administrative expenses decreased by $1.7 million, or 2.9%, in fiscal 2021 compared with fiscal 2020. The decrease was primarily due to lower travel expenses and restructuring savings offset in part by higher sales-related expenses.

Our selling and administrative expenses increased $1.9 million, or 3.4%, in fiscal 2020 compared with fiscal 2019. The increase was primarily due to higher variable compensation and expenses associated with one extra week in our fiscal 2020 calendar, partially offset by cost reductions initiatives associated with COVID-19.

Restructuring Charges

During the third and fourth quarters of fiscal 2021, our Board of Directors approved restructuring plans (the "Fiscal 2021 Plan") to continue to reduce our operating costs and improve profitability. We recorded restructuring charges of $2.4 million related to the Fiscal 2021 Plan in fiscal 2021. Payments related to the accrued restructuring balances for this plan are expected to be fully paid in fiscal 2022.

During the fourth quarter of fiscal 2020, our Board of Directors approved a restructuring plan (the "Q4 2020 Plan") in order to continue to reduce our operating costs and improve profitability to optimize our business model and increase efficiencies. We recorded restructuring charges of $1.9 million related to the Q4 2020 Plan in fiscal 2020. Payments related to the accrued restructuring liability balance for this plan are expected to be fully paid in fiscal 2022.

During the third quarter of fiscal 2020, our Board of Directors approved a restructuring plan (the "Q3 2020 Plan") in order to reduce our operating costs and improve profitability to optimize our business model and increase efficiencies. We recorded restructuring charges of $0.6 million related to the Q3 2020 Plan in fiscal 2020. Payments related to the accrued restructuring liability balance for this plan were fully paid in fiscal 2021.

During the fourth quarter of fiscal 2019, our Board of Directors approved a restructuring plan (the "Fiscal 2020 Plan") to primarily consolidate product development, right size our resources to support our International business and other support functions. Payments related to the accrued restructuring liability balance for this plan were fully paid in fiscal 2021.

During the fourth quarter of fiscal 2018, our Board of Directors approved a restructuring plan (the "Fiscal 2018-2019 Plan") to consolidate back-office support functions and align resources by geography to lower our expense structure. We completed the restructuring activities under the Fiscal 2018-2019 Plan at the end of fiscal 2019. Payments related to the accrued restructuring liability balance for this plan were fully paid in fiscal 2021.

Our restructuring charges by plan for fiscal 2021, 2020 and 2019 are summarized in the table below:

	Fiscal Year			$ Change		% Change	
(In thousands, except percentages)	2021	2020	2019	2021/2020	2020/2019	2021/2020	2020/2019
Fiscal 2021 Plan	$ 2,414	$ —	$ —	$ 2,414	$ —	N/A	N/A
Q4 2020 Plan	92	1,879	—	(1,787)	1,879	(95.1)%	N/A
Prior Years' Plan	(235)	2,170	736	(2,405)	1,434	(110.8)%	194.8 %
Restructuring charges	$ 2,271	$ 4,049	$ 736	$ (1,778)	$ 3,313	(43.9)%	450.1 %

Restructuring charges for fiscal 2021 included employee severance and benefits of $2.4 million the Fiscal 2021 Plan and a reduction in the previously estimated accrual of $0.2 million in Prior Years' Plan. Restructuring charges for fiscal 2020 included employee severance and benefits costs of $1.9 million for the Q4 2020 Plan, $2.2 million for the Prior Years' Plan. Restructuring charges for fiscal 2019 included $0.7 million of employee severance and benefits costs related to the Prior Years' Plan.

Interest Income, Interest Expense and Other Income (Expense), Net

	Fiscal Year			$ Change		% Change	
(In thousands, except percentages)	2021	2020	2019	2021/2020	2020/2019	2021/2020	2020/2019
Interest income	$ 230	$ 385	$ 267	$ (155)	$ 118	(40)%	44 %
Interest expense	—	(54)	(102)	54	48	(100)%	(47)%
Other income, net	—	—	17	—	(17)	N/A	N/A

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

Interest expense was primarily related to interest associated with borrowings under our Silicon Valley Bank (“SVB”) credit facility and discounts on customer letters of credit.

Income Taxes

(In thousands, except percentages)	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019	$ Change 2021/2020	$ Change 2020/2019
Income before income taxes	$ 22,440	$ 3,709	$ 1,550	$ 18,731	$ 2,159
(Benefit from) provision for income taxes	(87,699)	3,452	(8,188)	(91,151)	11,640
As % of income before income taxes	(390.8)%	93.1 %	(528.3)%		

Our (benefit from) provision for income taxes was $87.7 million of benefit for fiscal 2021, $3.5 million of expense for fiscal 2020 and $8.2 million of benefit for fiscal 2019. Our tax benefit for fiscal 2021 was primarily due to the release of $92.2 million in valuation allowance on our U.S. federal and state deferred tax assets, offset by tax expenses related to profitable foreign subsidiaries and an increase in our reserve for uncertain tax positions.

Our tax expense for fiscal 2020 was primarily due to tax expense related to profitable foreign subsidiaries and an increase in our reserve for uncertain tax positions.

Liquidity, Capital Resources and Financial Strategies

As of July 2, 2021, our cash and cash equivalents and short-term investments totaled $47.9 million. Approximately $27.9 million, or 58.2%, was held in the United States. The remaining balance of $20.0 million, or 41.8%, was held by entities outside the United States. Of the amount of cash and cash equivalents held by our foreign subsidiaries at July 2, 2021, $18.8 million was held in jurisdictions where our undistributed earnings are indefinitely reinvested, and if repatriated, would be subject to foreign withholding taxes.

Operating Activities

Cash provided by operating activities is presented as net income adjusted for certain non-cash items and changes in assets and liabilities. Net cash provided by operating activities was $17.3 million for fiscal 2021, $17.5 million for fiscal 2020 and $2.9 million for fiscal 2019.

For fiscal 2021 compared to fiscal 2020, cash provided by operating activities decreased by $0.2 million. The net contribution of non-cash items to cash provided by operating activities decreased by $92.3 million and the net contribution of changes in operating assets and liabilities to cash provided by operating activities decreased by $17.7 million in fiscal 2021 as compared to fiscal 2020.

The $92.3 million decrease in the net contribution of non-cash items to cash provided by operating activities was primarily attributable to a $90.4 million net change in deferred tax assets.

Net changes in operating assets and liabilities resulted in a decrease of $17.7 million to cash used by operating activities for fiscal 2021 compared to fiscal 2020. Accounts receivable and unbilled costs fluctuate from period to period, depending on the amount and timing of sales and billing activities and cash collections. The fluctuations in accounts payable and accrued expenses during fiscal 2021 were primarily due to the timing of liabilities incurred and vendor payments. The change in inventories and in customer service inventories during fiscal 2021 were primarily driven by forecasted demand and to secure component parts in shortage. The increase in customer advance payments and unearned revenue during fiscal 2021 was due to the timing of payment from customers and revenue recognition. We used $2.3 million in cash during fiscal 2021 on expenses related to restructuring liabilities.

For fiscal 2020 compared to fiscal 2019, cash provided by operating activities increased by $14.5 million. The net contribution of non-cash items to cash provided by operating activities increased by $9.3 million and the net changes in operating assets and liabilities to cash provided by operating activities increased by $10.3 million in fiscal 2020 as compared to fiscal 2019.

The $9.3 million increase in the net contribution of non-cash items to cash provided by operating activities was primarily attributable to a $8.6 million net change in deferred tax assets.

Investing Activities

Net cash used in investing activities was $2.8 million for fiscal year 2021, $4.6 million for fiscal 2020 and $5.2 million for fiscal 2019, which consisted of capital expenditures.

For fiscal 2022, we expect to spend between $5.0 million to $6.0 million for capital expenditures, primarily on equipment for development and manufacturing of new products and IT infrastructure.

Financing Activities

Financing cash flows consist primarily of proceeds and repayments of short-term debt, repurchase of stock and proceeds from the sale of shares of common stock through employee equity plans. Net cash used in financing activities was $8.0 million for fiscal year 2021, which was attributable to $9.0 million for the repayment of borrowings, $0.8 million for repurchase of common stock, $0.2 million payments for taxes related to net settlement of equity awards, offset by $1.9 million proceeds from the issuance of common stock from employee stock plans. Net cash used by financing activities was $2.5 million for fiscal 2020 and $3.0 million for fiscal 2019.

As of July 2, 2021, our principal sources of liquidity consisted of the $47.9 million in cash and cash equivalents, $22.7 million of available credit under our $25.0 million credit facility with Silicon Valley Bank ("SVB Credit Facility") which matures on June 28, 2024, and future collections of receivables from customers. We regularly require letters of credit from certain customers and, from time to time, these letters of credit are discounted without recourse shortly after shipment occurs in order to meet immediate liquidity requirements and to reduce our credit and sovereign risk. Historically, our primary sources of liquidity have been cash flows from operations and credit facilities.

On May 17, 2021 we entered into Amendment No. 4 to Third Amended and Restated Loan and Security Agreement, which extended the expiration date to June 28, 2024. While we intend to continue to renew the SVB Credit Facility in the future, there can be no assurance that the SVB Credit Facility will be renewed. In addition, there can be no assurance that our business will generate cash flow from operations, that we will be in compliance with the quarterly financial covenants contained in the SVB Credit Facility, or that we will have a sufficient borrowing base under such facility. If we are not in compliance with the financial covenants or do not have sufficient eligible accounts receivable to support our borrowing base, the availability of our credit facility is not certain or may be diminished. Over the longer term, if we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations that may arise in the future, we may be required to sell assets, reduce capital expenditures, or obtain financing. If we need to obtain additional financing, we cannot be assured that it will be available on favorable terms, or at all. Our ability to make scheduled principal payments or pay interest on or refinance any future indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the microwave communications market and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

On April 13, 2021, we filed a registration statement on Form S-3 with the SEC using a "shelf" registration process. If and when we utilize the shelf registration, we will be able to, from time to time, offer and sell, either individually or in combination, in one or more offerings, up to a total dollar amount of $200 million of any combination of the securities described in the shelf registration statement. Each time we offer securities under this shelf registration, we will provide a prospectus supplement that will contain more specific information about the terms of that offering.

We believe that our existing cash and cash equivalents, the available line of credit under the SVB Credit Facility and future cash collections from customers will be sufficient to provide for our anticipated requirements for working capital and capital expenditures for at least the next 12 months.

Available Credit Facility, Borrowings and Repayment of Debt

On May 17, 2021, we entered into Amendment No. 4 to Third Amended and Restated Loan and Security Agreement to extend the maturity date to June 28, 2024. The SVB Credit Facility provides for a $25.0 million accounts receivable formula-based revolving credit facility that can be borrowed by the U.S. company, with a $25.0 million sub-limit that can be borrowed by our U.S. and Singapore entities. Loans may be advanced under the SVB Credit Facility based on a borrowing base equal to a specified percentage of the value of eligible accounts of all borrowers under the SVB Credit Facility. The borrowing base is subject to certain eligibility criteria. Availability under the accounts receivable formula-based revolving credit facility can also be utilized to issue letters of credit with a $12.0 million sub-limit. We may prepay loans under the SVB Credit Facility in whole or in part at any time without premium or penalty. As of July 2, 2021, available credit under the SVB Credit Facility was $22.7 million reflecting the calculated borrowing base of $25.0 million less outstanding letters of credit of $2.3 million. We did not borrow against the SVB Credit Facility during fiscal 2021 and there was no borrowing outstanding as of July 2, 2021.

The SVB Credit Facility carries an interest rate, at our option, computed (i) at the prime rate reported in the Wall Street Journal plus a spread of 0.50% to 1.50%, with such spread determined based on our adjusted quick ratio; or (ii) if we satisfy a minimum adjusted quick ratio, a LIBOR rate determined in accordance with the SVB Credit Facility, plus a spread of 2.75%. Any outstanding Singapore subsidiary-borrowed loans shall bear interest at an additional 2.00% above the applicable prime or LIBOR rate.

The SVB Credit Facility contains monthly and quarterly financial covenants for minimum adjusted quick ratio and minimum profitability (EBITDA) requirements, respectively. 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, enter into a transaction resulting in a change in control, merge or consolidate, make acquisitions, incur indebtedness, grant liens, make investments, make certain restricted payments and enter into transactions with affiliates under certain circumstances. Certain of our assets, including accounts receivable, inventory, and equipment, are pledged as collateral for the SVB Credit Facility. Upon an event of default, outstanding obligations would be immediately due and payable. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default at a per annum rate of interest equal to 5.00% above the applicable interest rate.

As of July 2, 2021, we were in compliance with the quarterly financial covenants, as amended, contained in the SVB Credit Facility.

Due to the current economic uncertainty stemming from the impact of the COVID-19 pandemic, on April 21, 2020, we entered into a Paycheck Protection Program Note (the “Note”) with Silicon Valley Bank as the lender (“Lender”) in an aggregate principal amount of $5.9 million pursuant to the Paycheck Protection Program under the CARES Act (the “PPP Loan”). On April 22, 2020, we received proceeds of $5.9 million from the PPP Loan. At the time when we applied for the PPP Loan, we had qualified to receive the funds pursuant to the then-published qualification requirements. On April 23, 2020, the SBA, in consultation with the Department of Treasury, issued new guidance regarding qualification requirements for public companies. Based on our assessment of the new guidance, on May 5, 2020, we repaid the principal and interest on the PPP Loan.

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 2, 2021. 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 2, 2021. This facility may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Restructuring Payments

We had liabilities for restructuring activities totaling $2.7 million as of July 2, 2021, which was 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 provided by operations.

Contractual Obligations

The following table summarizes our contractual obligations and commitments as of July 2, 2021:

	Obligations Due by Fiscal Year					
(In thousands)	Total	< 1 year	1 - 3 years	3 - 5 years	> 5 years	Other
Purchase obligations (1)(4)	31,411	17,201	13,515	695	—	—
Other purchase obligations (3)(4)	2,456	1,529	927	—	—	—
Operating lease commitments (5)	5,172	973	1,315	1,174	1,710	—
Reserve for uncertain tax positions (2)	5,164	—	—	—	—	5,164
Total contractual cash obligations	$ 44,203	$ 19,703	$ 15,757	$ 1,869	$ 1,710	$ 5,164

(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 $5.2 million were included in long-term liabilities in the consolidated balance sheets. 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 as a service and software maintenance support.

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

(5) Includes operating leases with terms less than 1 year that are not recorded on our consolidated balance sheets.

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 2, 2021, we had commercial commitments on outstanding surety bonds and standby letters of credit as follows:

	Expiration of Commitments by Fiscal Year				
(In thousands)	Total	2022	2023	2024	After 2024
Standby letters of credit used for:					
Bids	$ 787	$ 787	$ —	$ —	$ —
Payment guarantees	3,238	2,190	—	—	1,048
Performance	34,697	33,584	1,113	—	—
	38,825	36,629	1,113	35	1,048
Surety bonds used for:					
Performance	530,497	524,726	5,771	—	—
Payment guarantees	3,642	3,542	100	—	—
Tax bonds	10,315	6,771	—	3,544	—
	544,454	535,039	5,871	3,544	—
Total commercial commitments	$ 583,279	$ 571,668	$ 6,984	$ 3,579	$ 1,048

Historically, we have not paid out any significant amount of our performance guarantees. As such, the outstanding commercial commitments have not been recorded in our consolidated balance sheets.

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, arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

Currently we are not participating in transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, and we do not have any material retained or contingent interest in assets as defined above. As of July 2, 2021, 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.

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 also enter into foreign exchange forward contracts to mitigate the change in fair value of specific non-functional currency assets and liabilities on the consolidated balance sheets. 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 2, 2021, we had no foreign currency forward contracts outstanding.

Net foreign exchange gain (loss) recorded in our consolidated statements of operations during fiscal 2021, 2020 and 2019 was as follows:

	Fiscal Year		
(In thousands)	2021	2020	2019
Amount included in costs of revenues	$ 1,015	$ 419	$ (664)
Total foreign exchange gain (loss), net	$ 1,015	$ 419	$ (664)

A 10% adverse change in currency exchange rates for our foreign currency derivatives held as of July 2, 2021 would have an no impact as we held no foreign currency derivatives as of July 2, 2021.

Certain of our international business are 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 2, 2021 and July 3, 2020, the cumulative translation adjustment decreased our stockholders' equity by $14.3 million and $15.0 million, respectively.

Interest Rate Risk

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

Exposure on Cash Equivalents and Short-term Investments

We had $47.9 million in total cash and cash equivalents and short-term investments as of July 2, 2021. Cash equivalents and short-term investments totaled $30.1 million as of July 2, 2021 and were comprised of money market funds and certificates of deposit. Cash equivalents and short-term investments have been recorded at fair value on our consolidated balance sheets.

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 and short-term investments 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 investments held as of July 2, 2021, had weighted-average days to maturity of 28 days, and an average yield of 3.39% per annum. A 10% change in interest rates on our cash equivalents and short-term investments is not expected to have a material impact on our financial position, results of operations or cash flows.

Exposure on Borrowings

During fiscal 2021, we had no demand borrowings outstanding under our credit facility. The interest would have been at the prime rate plus a spread of 0.50% to 1.50%, with such spread determined based on our adjusted quick ratio. During fiscal 2021, our weighted average interest rate would have been 3.75%.

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 for estimated costs to complete overtime services;
- inventory valuation and provision for excess and obsolete inventory losses; and
- income taxes valuation.

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.

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

Effective June 30, 2018, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, using the modified retrospective method applied to those contracts that were not completed as of June 29, 2018. Results for the reporting periods after June 29, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under ASC 605.

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, we recognize revenue by applying the following five-step approach: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Revenue from services includes certain network planning and design, engineering, installation and commissioning, extended warranty, customer support, consulting, training, and education. Maintenance and support services are generally offered to our customers and recognized over a specified period of time and from sales and subsequent renewals of maintenance and support contracts. The network planning and design, engineering and installation related services noted are recognized based on an over-time recognition model using the cost-input method. Certain judgment is required when estimating total contract costs and progress to completion on the over-time arrangements, as well as whether a loss is expected to be incurred on the contract. The cost estimation process for these contracts is based on the knowledge and experience of the Company’s project managers, engineers, and financial professionals. Changes in job performance and job conditions are factors that influence estimates of the total costs to complete those contracts and the Company’s revenue recognition. If circumstances arise that change the original estimates of revenues, costs, or extent of progress toward completion, revisions to the estimates are made in a timely manner. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that gave rise to the revision become known to us. We perform ongoing profitability analysis of our service contracts accounted for under this method in order to determine whether the latest estimates of revenues, costs, and profits require updating. In rare circumstances if these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately.

Inventory Valuation and Provisions for Excess and Obsolete Losses

Our inventories have been valued at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. 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 statements 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 and net realizable value. 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.

Income Taxes Valuation

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 sheets, as well as operating loss and tax credit carryforwards. Certain 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 consolidated balance sheets 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.

Realization of deferred tax assets is dependent upon future earnings in applicable tax jurisdictions. At each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets on a more likely than not basis. During fiscal 2021, we recorded a valuation allowance release of $92.2 million as a discrete item based on management's reassessment of the amount of its U.S. federal and state deferred tax assets that are more likely than not to be realized, primarily as a result of increases in U.S. profitability in the current period and expectations of continued profitability in future periods. In performing our analysis, we used the most updated plans and estimates that we currently use to manage the underlying business and calculated the utilization of our deferred tax assets. We continue to maintain a valuation allowance of $1.4 million on certain U.S. federal and state deferred tax assets that we believe is not more likely than not to be realized in future periods.

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***

Index to Financial Statements

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Aviat Networks, Inc.
Austin, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Aviat Networks, Inc. (the "Company") as of July 2, 2021 and July 3, 2020, the related consolidated statements of operations, comprehensive (loss) income, equity, and cash flows for each of the three fiscal years in the period ended July 2, 2021, the related notes and the financial statement schedule - Valuation and Qualifying Accounts (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at July 2, 2021 and July 3, 2020, and the results of its operations and its cash flows for each of the three fiscal years in the period ended July 2, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of July 2, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated August 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition – Estimated Costs to Complete

As described in Note 3 to the consolidated financial statements, revenues from network planning and design, engineering and installation-related services are recognized based on an overtime recognition model using the cost-input method. The cost estimation process for these contracts is based on the knowledge and experience of the Company's project managers, engineers, and financial professionals. Changes in job performance and job conditions are factors that influence estimates of the total costs to complete those contracts and the Company's revenue recognition.

We identified estimated costs to complete for open and ongoing over-time revenue contracts at year end as a critical audit matter. The determination of the total estimated cost and progress toward completion requires management to make significant estimates and assumptions. Changes in these estimates or timing of when the costs occur can have a significant impact on the revenue recognized each period. Auditing these elements involved especially challenging and subjective auditor judgment in evaluating the reasonableness of management’s assumptions and estimates over the duration of these contracts.

The primary procedures we performed to address this critical audit matter included:

a. Testing the design and operating effectiveness of certain controls related to estimated costs to complete, including controls over management’s review of cost estimates.

b. Evaluating the reasonableness of a sample of project budgets for projects completed during the year through a retrospective review against actual performance at project completion.

c. Assessing the reasonableness of the estimated costs to complete for a sample of open projects through: (i) evaluating the reasonableness of project budgets and the nature of costs required to complete open projects, (ii) assessing the status of completion of respective projects through testing of a sample of project costs incurred to date, (iii) evaluating the reasonableness of project status by performing inquiries of project managers and assessing the nature of activities required to complete open projects, and (iv) performing retrospective review on closed projects and investigating budget to actual variances (if any).

d. Assessing the reasonableness of changes in estimated costs to complete and investigating reasons for changes in expected costs and project margins.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

San Jose, California
August 25, 2021

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Aviat Networks, Inc.
Austin, Texas

Opinion on Internal Control over Financial Reporting

We have audited Aviat Networks, Inc.'s (the "Company's") internal control over financial reporting as of July 2, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 25, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of July 2, 2021 and July 3, 2020, the related consolidated statements of operations, comprehensive (loss) income, equity, and cash flows for each of the three fiscal years in the period ended July 2, 2021, the related notes and the financial statement schedule - Valuation and Qualifying Accounts and our report dated August 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP
San Jose, California
August 25, 2021

AVIAT NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
(In thousands, except per share amounts)	**July 2, 2021**	**July 3, 2020**	**June 28, 2019**
Revenues:			
Revenue from product sales	$ 185,787	$ 153,793	$ 156
Revenue from services	89,124	84,849	87
Total revenues	274,911	238,642	243
Cost of revenues:			
Cost of product sales	113,055	95,321	103
Cost of services	59,241	58,625	61
Total cost of revenues	172,296	153,946	164
Gross margin	102,615	84,696	79
Operating expenses:			
Research and development expenses	21,810	19,284	21
Selling and administrative expenses	56,324	57,985	56
Restructuring charges	2,271	4,049	
Total operating expenses	80,405	81,318	77
Operating income	22,210	3,378	1
Interest income	230	385	
Interest expense	—	(54)	(
Other income (expense), net	—	—	
Income before income taxes	22,440	3,709	1
(Benefit from) provision for income taxes	(87,699)	3,452	(8.
Net income	$ 110,139	$ 257	$ 9
Net income per share:			
Basic	$ 9.98	$ 0.02	$
Diluted	$ 9.42	$ 0.02	$
Weighted average shares outstanding:			
Basic	11,036	10,782	10
Diluted	11,688	10,936	11

See accompanying Notes to Consolidated Financial Statements

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

	Fiscal Year Ended		
(In thousands)	July 2, 2021	July 3, 2020	June 28, 2019
Net income	$ 110,139	$ 257	$ 9,738
Other comprehensive income (loss):			
Net change in cumulative translation adjustment, net of tax	642	(2,233)	(131)
Other comprehensive income (loss)	642	(2,233)	(131)
Comprehensive income (loss)	$ 110,781	$ (1,976)	$ 9,607

See accompanying Notes to Consolidated Financial Statements

AVIAT NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value amounts)	July 2, 2021	July 3, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 47,942	$ 41,618
Accounts receivable, net	48,135	44,661
Unbilled receivables	37,521	28,085
Inventories	23,436	13,997
Customer service inventories	1,431	1,234
Asset held for sale	2,218	—
Other current assets	9,556	10,355
Total current assets	170,239	139,950
Property, plant and equipment, net	11,701	16,911
Deferred income taxes	103,467	12,799
Right of use assets	3,816	3,474
Other assets	8,430	6,667
TOTAL ASSETS	$ 297,653	$ 179,801
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term debt	$ —	$ 9,000
Accounts payable	32,405	31,995
Accrued expenses	28,154	26,920
Short-term lease liabilities	769	1,445
Advance payments and unearned revenue	32,304	21,872
Restructuring liabilities	2,737	2,738
Total current liabilities	96,369	93,970
Unearned revenue	8,592	8,142
Long-term lease liabilities	3,223	2,303
Other long-term liabilities	356	401
Reserve for uncertain tax positions	5,164	5,759
Deferred income taxes	614	545
Total liabilities	114,318	111,120
Commitments and contingencies (Note 12)		
Equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 300,000,000 shares authorized; 11,153,445 and 10,800,974 shares issued and outstanding as of July 2, 2021 and July 3, 2020, respectively	112	108
Treasury stock 19,587 and 0 shares as of July 2, 2021 and July 3, 2020, respectively	(787)	—
Additional paid-in-capital	818,939	814,283
Accumulated deficit	(620,602)	(730,741)
Accumulated other comprehensive loss	(14,327)	(14,969)
Total equity	183,335	68,681
TOTAL LIABILITIES AND EQUITY	$ 297,653	$ 179,801

See accompanying Notes to Consolidated Financial Statements

AVIAT NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
(In thousands)	July 2, 2021	July 3, 2020	June 28, 2019
Operating Activities			
Net income	$ 110,139	$ 257	$ 9,738
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	5,383	4,387	4,468
Provision for (recovery from) uncollectible receivables	171	23	(359)
Share-based compensation	2,921	1,686	1,723
Deferred tax assets, net	(90,599)	(172)	(8,760)
Charges for inventory and customer service inventory write-downs	1,452	945	553
Loss on disposition of property, plant and equipment, net	6	56	4
Noncash lease expense	(342)	4,416	—
Changes in operating assets and liabilities:			
Accounts receivable	(4,232)	7,043	(6,395)
Unbilled receivables	(8,579)	(304)	(4,976)
Inventories	(9,987)	(5,651)	1,228
Customer service inventories	(1,104)	(1,023)	(357)
Accounts payable	580	(3,122)	5,074
Accrued expenses	1,767	4,285	(2,585)
Advance payments and unearned revenue	10,560	6,304	4,170
Income taxes payable or receivable	159	1,978	338
Other assets and liabilities	(997)	(3,615)	(920)
Net cash provided by operating activities	17,298	17,493	2,944
Investing Activities			
Payments for acquisition of property, plant and equipment	(2,847)	(4,608)	(5,246)
Net cash used in investing activities	(2,847)	(4,608)	(5,246)
Financing Activities			
Proceeds from borrowings	—	41,911	36,000
Repayments of borrowings	(9,000)	(41,911)	(36,000)
Payments for repurchase of common stock	—	(1,772)	(2,316)
Payments for repurchase of common stock - treasury shares	(787)	—	—
Payments for taxes related to net settlement of equity awards	(167)	(802)	(671)
Proceeds from issuance of common stock under employee stock plans and exercises of stock options	1,906	29	35
Net cash used in financing activities	(8,048)	(2,545)	(2,952)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(77)	(669)	(309)
Net increase (decrease) in cash, cash equivalents, and restricted cash	6,326	9,671	(5,563)
Cash, cash equivalents, and restricted cash, beginning of year	41,872	32,201	37,764
Cash, cash equivalents, and restricted cash, end of year	$ 48,198	$ 41,872	$ 32,201

(In thousands)	Fiscal Year Ended July 2, 2021	Fiscal Year Ended July 3, 2020	Fiscal Year Ended June 28, 2019
Non-cash investing activities:			
Unpaid property, plant and equipment	$ 228	$ 277	$ 578
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 4	$ 60	$ 70
Cash (received) paid for income taxes, net	$ (2,119)	$ 1,057	$ 687

See accompanying Notes to Consolidated Financial Statements

AVIAT NETWORKS, INC.

CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock		Treasury Stock					
(In thousands, except share amounts)	Shares	$ Amount	Shares	$ Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of June 29, 2018	**10,702,310**	**$ 108**	**—**	**$ —**	**$ 816,372**	**$ (746,359)**	**$ (12,605)**	**$ 57,516**
Cumulative-effect adjustment for ASC Topic 606	—	—	—	—	—	5,623	—	5,623
Net income	—	—	—	—	—	9,738	—	9,738
Other comprehensive (loss) income, net of tax	—	—	—	—	—	—	(131)	(131)
Issuance of common stock under employee stock plans	345,406	4	—	—	31	—	—	35
Shares withheld for taxes related to vesting of equity awards	(15,788)	(2)	—	—	(670)	—	—	(672)
Stock repurchase	(312,538)	(2)	—	—	(2,314)	—	—	(2,316)
Share-based compensation	—	—	—	—	1,723	—	—	1,723
Balance as of June 28, 2019	**10,719,390**	**108**	**—**	**—**	**815,142**	**(730,998)**	**(12,736)**	**71,516**
Net income	—	—	—	—	—	257	—	257
Other comprehensive (loss) income, net of tax	—	—	—	—	—	—	(2,233)	(2,233)
Issuance of common stock under employee stock plans	450,112	4	—	—	25	—	—	29
Shares withheld for taxes related to vesting of equity awards	(112,482)	(2)	—	—	(800)	—	—	(802)
Stock repurchase	(256,046)	(2)	—	—	(1,770)	—	—	(1,772)
Share-based compensation	—	—	—	—	1,686	—	—	1,686
Balance as of July 3, 2020	**10,800,974**	**108**	**—**	**—**	**814,283**	**(730,741)**	**(14,969)**	**68,681**
Net income	—	—	—	—	—	110,139	—	110,139
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	642	642
Issuance of common stock under employee stock plans	393,724	4	—	—	1,902	—	—	1,906
Shares withheld for taxes related to vesting of equity awards	(13,366)	—	—	—	(167)	—	—	(167)
Stock repurchase	(27,887)	—	19,587	(787)	—	—	—	(787)
Share-based compensation	—	—	—	—	2,921	—	—	2,921
Balance as of July 2, 2021	**11,153,445**	**$ 112**	**19,587**	**$ (787)**	**$ 818,939**	**$ (620,602)**	**$ (14,327)**	**$ 183,335**

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 2, for fiscal 2021, July 3, for fiscal 2020 and June 28, for fiscal 2019. Fiscal 2021 presented 52 weeks while fiscal 2020 included 53 weeks and fiscal 2019 included 52 weeks. In these notes to consolidated financial statements, we refer to our fiscal years as "fiscal 2021", "fiscal 2020" and "fiscal 2019."

Stock Split

On April 7, 2021 we effected a two-for-one stock split in the form of a stock dividend to shareholders of record as of April 1, 2021. Common stock, Additional paid-in-capital, per share and equity award amounts for all periods presented have been retrospectively reclassified to reflect the two-for-one stock split in the form of a stock dividend.

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 and uncertainties in income taxes.

Cash, Cash Equivalents and Restricted Cash

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. Investments with an original maturity of greater than three months are accounted for as short-term investments and are classified as such at the time of purchase.

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.

As of July 2, 2021 and July 3, 2020, all of our high-quality marketable debt securities were invested in prime money market funds.

Cash and cash equivalents that are restricted as to withdrawal or usage under the terms of contractual agreements are recorded as restricted cash. Our long-term restricted cash included the cash balance 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 on our consolidated balance sheets and the corresponding liabilities were included in other long-term liabilities on our consolidated balance sheets.

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 certain 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 2021 and 2020 there were no customers that accounted for more than 10% of our total revenue. During fiscal 2019, Mobile Telephone Networks Group ("MTN Group") in Africa accounted for 11% of our total revenue. As of July 2, 2021 and July 3, 2020, MTN Group accounted for approximately 14% and 21%, respectively, of our accounts receivable.

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. Risks associated with cash and cash equivalents, and investments are mitigated by banking with, and investing in, creditworthy institutions.

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. 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 and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. 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 net realizable 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 and net realizable value. 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 the 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.

Leases

On June 29, 2019, the first day of our fiscal 2020, we adopted ASC 842 using the modified retrospective transition method, which requires a cumulative-effect adjustment, if any, to the opening balance of accumulated deficit to be recognized on the date of adoption with prior periods not restated.

We lease facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 20 years and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to 3 years.

We determine if an arrangement contains a lease at inception. These operating leases are included in Right of use assets (ROU assets) on our July 2, 2021 consolidated balance sheets and represent our right to use the underlying asset for the lease term. Our obligation to make lease payments are included in "Short-term lease liabilities" and "Long-term lease liabilities" on our July 2, 2021 consolidated balance sheets. We have not entered into any financing leases during fiscal 2021.

Operating lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we used the incremental borrowing rate based on the remaining lease term at commencement date in determining the present value of future payments. The operating lease ROU assets also include any lease payments made and exclude lease incentives and initial direct costs incurred. Variable lease payments are expensed as incurred and are not included within the ROU asset and lease liability calculation. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Certain of our lease arrangements include non-lease components and we account for non-lease components together with lease components for all such lease arrangements.

Leases with an initial term of 12 months or less are not recorded on our consolidated balance sheets. We recognize lease expense for these leases on a straight-line basis over the lease term.

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 cost of product sales and services in the accompanying consolidated statements of operations, based on the nature of the transactions. Net foreign exchange gain (loss) recorded in our consolidated statements of operations during fiscal 2021, 2020 and 2019 was as follows:

	Fiscal Year		
(In thousands)	2021	2020	2019
Amount included in costs of revenues	$ 1,015	$ 419	$ (664)
Total foreign exchange gain (loss), net	$ 1,015	$ 419	$ (664)

Retirement Benefits

As of July 2, 2021, 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. Contributions to retirement plans are expensed as incurred. Retirement plan expense amounted to $1.8 million, $1.7 million and $2.0 million in fiscal 2021, 2020 and 2019, respectively.

Revenue Recognition

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, we recognize revenue by applying the following five-step approach: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, we satisfy a performance obligation. See Note 3 for additional discussion on revenue recognition.

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.

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 2021, 2020 and 2019.

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 generally charged to operations in the period in which they are incurred. For certain software projects under development, we capitalize the development costs during the period between determining technological feasibility of the product and commercial release and are included in Other assets on the consolidated balance sheet. We amortize the capitalized development cost upon commercial release, generally over three years. To date, the amount of development costs capitalized and amount amortized have not been material.

Share-Based Compensation

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 awards and units and performance share awards and units, 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 conditions was estimated using the Monte-Carlo simulation model. We elected to account for forfeitures as they occur.

We generally recognize compensation cost for share-based payment awards on a straight-line basis over the requisite service period. For an award that has 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.

For awards with a performance condition vesting feature, we recognize share-based compensation costs for the performance awards and units 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 a 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.

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 basis 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 for uncertain tax positions. 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.

Accounting Standards Adopted

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 will be effective for us in our first quarter of fiscal 2021, with early adoption permitted. The standard can be adopted either using the prospective or retrospective transition approach. We adopted this amendment on July 4, 2020. We have assessed the amendments of ASU 2018-15 and determined the amendments to have an immaterial impact on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13). The update eliminates, adds, and modifies certain disclosure requirements for fair value measurements. ASU 2018-13 will be effective for us in our first quarter of fiscal 2021 and early adoption is permitted of the entire standard or only the provisions that eliminate or modify disclosure requirements. We adopted this amendment on July 4, 2020. We have assessed the amendments of ASU 2018-13 and determined the amendments to have an immaterial impact on our consolidated financial statements and related disclosures.

Accounting Standards Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740). This guidance simplifies the accounting for income taxes by removing certain exceptions to the general principles and also simplifies areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws and rate changes. ASU 2019-12 will be effective for us in our first quarter of fiscal 2022. We are currently evaluating the potential impact of ASU 2019-12 will have on our consolidated financial statements..

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848). This guidance provides optional guidance related to reference rate reform, which provides practical expedients for contract modifications and certain hedging relationships associated with the transition from reference rates that are expected to be discontinued. This guidance is applicable for our borrowing instruments, which use LIBOR as a reference rate, and will be effective through December 31, 2022. We are currently evaluating the potential impact of ASU 2020-04 will have on our consolidated financial statements.

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

Note 2. Net Income per Share of Common Stock

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

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

	Fiscal Year		
(In thousands, except per share amounts)	2021	2020	2019
Numerator:			
Net income	$ 110,139	$ 257	$ 9,738
Denominator:			
Weighted average shares outstanding, basic	11,036	10,782	10,754
Effect of potentially dilutive equivalent shares	652	154	482
Weighted average shares outstanding, diluted	11,688	10,936	11,236
Net income per share:			
Basic	$ 9.98	$ 0.02	$ 0.91
Diluted	$ 9.42	$ 0.02	$ 0.87

The following table summarizes the weighted-average equity awards that were excluded from the diluted net income per share calculations since they were antidilutive:

	Fiscal Year		
(In thousands)	2021	2020	2019
Stock options	8	356	390
Restricted stock units and performance stock units	4	2	32
Total shares of common stock excluded	12	358	422

Note 3. Revenue Recognition

We recognize revenue by applying the following five-step approach: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Contracts and customer purchase orders are used to determine the existence of an arrangement.

Many of the Company’s arrangements with customers contain multiple performance obligations and therefore promises to provide multiple goods and services. The Company evaluates each promised good and service in a contract to determine whether it represents a distinct performance obligation or should be accounted for as a combined performance obligation. For goods and services determined to be distinct we have concluded that they provide a benefit to the customer either on their own or together with other resources that are readily available to the customer, without having the need for significant integration or customization.

Revenue from product sales, recognized at a point-in-time, is generated predominately from the sales of products manufactured by third-party manufacturers to whom we have outsourced our manufacturing processes. 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 network planning and design, engineering, installation and commissioning (“field services”), extended warranty, customer support, consulting, training, and education. Maintenance and support services are generally offered to our customers and recognized over a specified period of time and from sales and subsequent renewals of maintenance and support contracts. The network planning and design, engineering and installation related services noted are recognized based on an over-time recognition model using the cost-input method. Certain judgment is required when estimating total contract costs and progress to completion on the over-time arrangements, as well as whether a loss is expected to be incurred on the contract. The cost estimation process for these contracts is based on the knowledge and experience of the Company’s project managers, engineers, and financial professionals. Changes in job performance and job conditions are factors that influence estimates of the total costs to complete those contracts and the Company’s revenue recognition. If circumstances arise that change the original estimates of revenues, costs, or extent of progress toward completion, revisions to the estimates are made in a timely manner. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that gave rise to the revision become known to us. We perform ongoing profitability analysis of our service contracts accounted for under this method in order to determine whether the latest estimates of revenues, costs, and profits require updating. In rare circumstances if these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately. 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 receivables and if invoicing is ahead of revenue recognized it is classified as an unearned liability on the consolidated balance sheets.

In addition, shipping documents and customer acceptances, when applicable, are used to verify delivery and transfer of control. We typically satisfy our performance obligations upon shipment or delivery of product depending on the contractual terms. Payment terms to customers generally range from net 30 to 120 days from invoice, which are considered to be standard payment terms. Revenue recognition does not necessarily follow payment terms as there are a number of scenarios where they would be different. Recognition follows contractual terms and those vary depending on the nature of the performance obligation being satisfied. These timing differences result in contract assets and liabilities as discussed below. We assess our ability to collect from our customers based primarily on the creditworthiness and past payment history of the customer.

While our customers do not have the right of return, we reserve for estimated product returns as an offset to revenue based primarily on historical trends. Actual product returns may be different than what was estimated. These factors and unanticipated changes in economic and industry condition could make actual results differ from our return estimates.

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

Bill-and-Hold Sales

Certain customer arrangements consist of bill-and-hold characteristics under which transfer of control has been met (including the passing of title and significant risk and reward of ownership to the customers). Therefore, the customers can direct the use of the bill-and-hold inventory while we retain physical possession of the product until it is installed at a customer site at a point in time in the future.

Termination Rights

The contract term is determined on the basis of the period over which the parties to the contract have present enforceable rights and obligations. Certain customer contracts include a termination for convenience clause that allows the customer to terminate services without penalty, upon advance notification. We concluded that the duration of support contracts does not extend beyond the non-cancellable portion of the contract.

Variable Consideration

The consideration associated with customer contracts is generally fixed. Variable consideration includes discounts, rebates, refunds, credits, incentives, penalties, or other similar items. The amount of consideration that can vary is not a substantial portion of total consideration.

Variable consideration estimates are re-assessed at each reporting period until a final outcome is determined. The changes to the original transaction price due to a change in estimated variable consideration are applied on a retrospective basis, with the adjustment recorded in the period in which the change occurs. Changes to variable consideration are tracked and material changes disclosed.

Stand-alone Selling Price

Stand-alone selling price is the price at which an entity would sell a good or service on a stand-alone (or separate) basis at contract inception. Under the model, the observable price of a good or service sold separately provides the best evidence of stand-alone selling price. However, in certain situations, stand-alone selling prices will not be readily observable and the entity must estimate the stand-alone selling price.

When allocating on a relative stand-alone selling price basis, any discount provided in the contract is allocated proportionately to all of the performance obligations in the contract.

The majority of products and services that we offer have readily observable selling prices. For products and services that do not, we estimate stand-alone selling price using the market assessment approach based on expected selling price and adjust those prices as necessary to reflect our costs and margins. As part of our stand-alone selling price policy, we review product pricing on a periodic basis to identify any significant changes and revise our expected selling price assumptions as appropriate.

Shipping and Handling

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.

Costs to Obtain a Contract

We have assessed the treatment of costs to obtain or fulfill a contract with a customer. Under ASC 606, we capitalize sales commissions related to multi-year service contracts, and amortize the asset over the period of benefit, which is the estimated service period. Sales commissions paid on contract renewals, including service contract renewals, is commensurate with the sales commissions paid on the initial contracts. The capitalized sales commissions are included in Other Current Assets and Other Assets on the consolidated balance sheets. We have not identified any impairments during the periods presented.

We elected the practical expedient to expense sales commissions as incurred when the amortization period of the related asset is one year or less. These costs are recorded as sales and marketing expense and included in our consolidated balance sheet as accrued expenses until paid. Our amortization expense was not material for the fiscal years ended July 2, 2021, July 3, 2020 and June 28, 2019.

Contract Balances, Performance Obligations, and Backlog

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

	July 2, 2021	July 3, 202
Contract Assets		
Accounts receivable, net	$ 48,135	$ 44
Unbilled receivables	$ 37,521	$ 28
Capitalized commissions	$ 1,720	$ 1
Contract Liabilities		
Advance payments and unearned revenue	$ 32,304	$ 21
Unearned revenue, long-term	$ 8,592	$ 8

Significant changes in contract balances may arise as a result of recognition over time for services, transfer of control for equipment, and periodic payments (both in arrears and in advance).

From time to time, we may experience unforeseen events that could result in a change to the scope or price associated with an arrangement. We would update the transaction price and measure of progress for the performance obligation and recognize the change as a cumulative catch-up to revenue. Because of the nature and type of contracts we engage in, the timeframe to completion and satisfaction of current and future performance obligations can shift; however, this will have no impact on our future obligation to bill and collect.

As of July 2, 2021, we had $40.9 million in advance payments and unearned revenue and long-term unearned revenue, of which approximately 80% is expected to be recognized as revenue in fiscal 2022 and the remainder thereafter. During fiscal years 2021 and 2020, we recognized approximately $21.9 million and $14.0 million respectively, that was included in advance payments and unearned revenue at the beginning of each reporting period.

Remaining Performance Obligations

We elect the practical consideration to exclude performance obligations that relate to contracts with original expected durations of one year or less. As our product purchase orders are generally delivered within one year or less and our maintenance and support service contracts can be terminated without substantive termination penalties resulting in contracts with less than one year of duration, these performance obligations have been excluded from the remaining performance obligation amounts. The aggregate amount of transaction price allocated to the remaining unsatisfied performance obligations (or partially unsatisfied) was approximately $70.4 million at July 2, 2021 relating to our long-term field service projects. Of this amount, we expect to recognize approximately 60% as revenue during fiscal 2022, with the remaining amount to be recognized as revenue beyond 12 months.

Note 4. Leases

We lease facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 20 years and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to 3 years. We lease approximately 18,000 square feet of office space in Austin, Texas as our corporate headquarters with an original term of 36 months.

We determine if an arrangement contains a lease at inception. These operating leases are included in "Right of use assets" (ROU assets) on our July 2, 2021 consolidated balance sheet and represent our right to use the underlying asset for the lease term. Our obligation to make lease payments are included in "Short-term lease liabilities" and "Long-term lease liabilities" on our July 2, 2021 consolidated balance sheet. We have not entered into any financing leases during fiscal 2021.

Operating lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we used the incremental borrowing rate based on the remaining lease term at commencement date in determining the present value of future payments. The operating lease ROU assets also include any lease payments made and exclude lease incentives and initial direct costs incurred. Variable lease payments are expensed as incurred and are not included within the ROU asset and lease liability calculation. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Certain of our lease arrangements include non-lease components and we account for non-lease components together with lease components for all such lease arrangements.

Leases with an initial term of 12 months or less are not recorded on our consolidated balance sheets. We recognize lease expense for these leases on a straight-line basis over the lease term.

As of July 2, 2021, total ROU assets were approximately $3.8 million, and short-term lease liabilities and long-term lease liabilities were approximately $0.8 million and $3.2 million, respectively. Cash paid for lease liabilities was $1.3 million for fiscal 2021.

The following summarizes our lease costs, lease term and discount rate for fiscal 2021 and 2020 (in thousands):

	Fiscal	
	2021	2020
Operating lease costs	$ 1,213	$ 5,241
Short-term lease costs	1,639	1,541
Variable lease costs	324	351
Total lease costs	$ 3,176	$ 7,133

Other information related to our operating leases for fiscal 2021 and 2020 (in thousands, except for weighted average):

	Fiscal	
	2021	2020
Weighted average remaining lease term	7.8 years	6.8 years
Weighted average discount rate	5.7 %	6.8 %
Operating lease assets obtained in exchange for operating lease liabilities	$ 1,772	$ —

Rental expense for operating leases, including rentals on a month-to-month basis was $3.3 million for fiscal 2021 and $3.7 million for each of fiscal 2020 and 2019.

As of July 2, 2021, our future minimum lease payments under all non-cancelable operating leases with an initial term in excess of one year were as follows (in thousands):

Fiscal years	Amount
2022	$ 973
2023	717
2024	598
2025	617
2026	557
Thereafter	1,710
Total lease payments	5,172
Less: interest	(1,181)
Present value of lease liabilities	$ 3,991

Note 5. Balance Sheet Components

Cash, Cash Equivalents, and Restricted Cash

The following table provides a summary of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that reconciles to the corresponding amount in the Consolidated Statements of Cash Flows:

(In thousands)	July 2, 2021	July 3, 2020
Cash and cash equivalents	$ 47,942	$ 41,618
Restricted cash included in Other assets	256	254
Total cash, cash equivalents, and restricted cash	$ 48,198	$ 41,872

Accounts Receivable, net

Our net accounts receivable are summarized below:

(In thousands)	July 2, 2021	July 3, 2020
Accounts receivable	$ 50,276	$ 46,502
Less: Allowances for collection losses	(2,141)	(1,841)
Total accounts receivable, net	$ 48,135	$ 44,661

Inventories

Our inventories are summarized below:

(In thousands)	July 2, 2021	July 3, 2020
Finished products	$ 15,409	$ 9,055
Raw materials and supplies	8,027	4,942
Total inventories	$ 23,436	$ 13,997
Consigned inventories included within raw materials	$ 6,570	$ 1,931

During fiscal 2021, 2020 and 2019, we recorded charges to adjust our inventory and customer service inventory due to excess and obsolete inventory resulting from lower sales forecasts, product transitioning or discontinuance. Such charges incurred during fiscal 2021, 2020 and 2019 were classified in cost of product sales as follows:

	Fiscal Year		
(In thousands)	2021	2020	2019
Excess and obsolete inventory charges (recovery)	$ 544	$ 233	$ (352)
Customer service inventory write-downs	908	712	905
Total charges	$ 1,452	$ 945	$ 553

Assets Held for Sale

We consider properties to be Assets held for sale when management approves and commits to a plan to dispose of a property or group of properties. The property held for sale prior to the sale date is separately presented on the consolidated balance sheets as Assets held for sale.

During the second quarter of fiscal 2021 management initiated the sale of our facility located in Lanarkshire, Scotland. We expect to complete the sale within twelve months. The carrying value of this asset held for sale as of April 2, 2021 of $2.2 million which represents the lower of 1) the carrying value or 2) fair value of the assets, less estimated costs to sell the assets. We performed an analysis and determined the estimated fair value of the assets, less estimated selling costs, is higher than the carrying value of the assets. As a result, no impairment charge was recorded in our consolidated statements of operations.

Property, Plant and Equipment, net

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

(In thousands)	July 2, 2021	July 3, 2020
Land	$ 210	$ 710
Buildings and leasehold improvements	6,914	11,737
Software	21,370	17,887
Machinery and equipment	51,244	52,293
	79,738	82,627
Less accumulated depreciation and amortization	(68,037)	(65,716)
Total Property, Plant and Equipment, net	$ 11,701	$ 16,911

Included in the total plant, property and equipment above were $0.3 million and $3.5 million of assets in progress which have not been placed in service as of July 2, 2021 and July 3, 2020, respectively. Depreciation and amortization expense related to property, plant and equipment, including amortization of internal use software was $5.4 million, $4.4 million and $4.5 million in fiscal 2021, 2020 and 2019, respectively.

Accrued Expenses

Our accrued expenses are summarized below:

(In thousands)	July 2, 2021	July 3, 2020
Accrued compensation and benefits	$ 13,455	$ 11,814
Accrued agent commissions	2,348	2,356
Accrued warranties	3,228	3,196
Other	9,123	9,554
	$ 28,154	$ 26,920

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, were as follows:

	Fiscal Year		
(In thousands)	2021	2020	2019
Balance as of the beginning of the fiscal year	$ 3,196	$ 3,323	$ 3,196
Warranty provision recorded during the period	1,679	1,564	1,974
Consumption during the period	(1,647)	(1,691)	(1,847)
Balance as of the end of the period	$ 3,228	$ 3,196	$ 3,323

Advance payments and Unearned Income

Our advance payments and unearned income are summarized below:

(In thousands)	July 2, 2021	July 3, 2020
Advance payments	$ 2,445	$ 2,529
Unearned income	29,859	19,343
	$ 32,304	$ 21,872

Note 6. Fair Value Measurements of Assets and Liabilities

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

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

The carrying amounts, estimated fair values and valuation input levels of our assets and liabilities that are measured at fair value on a recurring basis as of July 2, 2021 and July 3, 2020 were as follows:

	July 2, 2021		July 3, 2020		
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Valuation Inputs
Assets:					
Cash and cash equivalents:					
Money market funds	$ 26,847	$ 26,847	$ 18,189	$ 18,189	Level 1
Bank certificates of deposit	$ 3,288	$ 3,288	$ 3,250	$ 3,250	Level 2
Liabilities:					
Other accrued expenses:					
Foreign exchange forward contracts	$ —	$ —	$ 14	$ 14	Level 2

We classify items within Level 1 if quoted prices are available in active markets. Our Level 1 items mainly are money market funds purchased from major financial institutions. As of July 2, 2021, these money market funds 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 2, 2021 and July 3, 2020. We did not have any recurring assets or liabilities that were valued using significant unobservable inputs.

Our policy is to recognize asset or liability transfers among Level 1, Level 2 and Level 3 as of the actual date of the events or change in circumstances that caused the transfer. During fiscal 2021, 2020 and 2019, we had no transfers between levels of the fair value hierarchy of our assets or liabilities measured at fair value.

Note 7. Credit Facility and Debt

On May 17, 2020, we entered into Amendment No. 4 to Third Amended and Restated Loan and Security Agreement with Silicon Valley Bank (the “SVB Credit Facility”) which extended the expiration date to June 28, 2024. The SVB Credit Facility provides for a $25.0 million accounts receivable formula based revolving credit facility that can be borrowed by our U.S. company, with a $25.0 million sublimit that can be borrowed by our U.S. and Singapore entities. Loans may be advanced under the SVB Credit Facility based on a borrowing base equal to a specified percentage of the value of eligible accounts of the borrowers under the SVB Credit Facility. The borrowing base is subject to certain eligibility criteria. Availability under the accounts receivable formula based revolving credit facility can also be utilized to issue letters of credit with a $12.0 million sub limit. We may prepay loans under the SVB Credit Facility in whole or in part at any time without premium or penalty. As of July 2, 2021, available credit under the SVB Credit Facility was $22.7 million reflecting the calculated borrowing base of $25.0 million less outstanding letters of credit of $2.3 million. We did not borrow against the SVB Credit Facility during fiscal 2021 and there was no borrowing outstanding as of July 2, 2021.

The SVB Credit Facility carries an interest rate, at our option, computed (i) at the prime rate reported in the Wall Street Journal plus a spread of 0.50% to 1.50%, with such spread determined based on our adjusted quick ratio; or (ii) if we satisfy a minimum adjusted quick ratio, a LIBOR rate determined in accordance with the SVB Credit Facility, plus a spread of 2.75%. Any outstanding Singapore subsidiary borrowed loans shall bear interest at an additional 2.00% above the applicable prime or LIBOR rate.

The SVB Credit Facility contains monthly and quarterly financial covenants including minimum adjusted quick ratio and minimum profitability (EBITDA) requirements. In the event our adjusted quick ratio falls below a certain level, cash received in our accounts with Silicon Valley Bank may be directly applied to reduce outstanding obligations under the SVB Credit Facility. The SVB Credit Facility also imposes certain restrictions on our ability to dispose of assets, permit a change in control, merge or consolidate, make acquisitions, incur indebtedness, grant liens, make investments, make certain restricted payments and enter into transactions with affiliates under certain circumstances. Certain of our assets, including accounts receivable, inventory, and equipment, are pledged as collateral for the SVB Credit Facility. Upon an event of default, outstanding obligations would be immediately due and payable. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default at a per annum rate of interest equal to 5.00% above the applicable interest rate. As of July 2, 2021, we were in compliance with the quarterly financial covenants, as amended, contained in the SVB Credit Facility.

Due to the current economic uncertainty stemming from the impact of the COVID-19 pandemic, on April 21, 2020, we entered into a Paycheck Protection Program Note (the “Note”) with Silicon Valley Bank as the lender (“Lender”) in an aggregate principal amount of $5.9 million pursuant to the Paycheck Protection Program under the CARES Act (the “PPP Loan”). On April 22, 2020, we received proceeds of $5.9 million from the PPP Loan. At the time when we applied for the PPP Loan, we had qualified to receive the funds pursuant to the then published qualification requirements. On April 23, 2020, the SBA, in consultation with the Department of Treasury, issued new guidance regarding qualification requirements for public companies. Based on our assessment of the new guidance, on May 5, 2020, we repaid the principal and interest on the PPP Loan.

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 2, 2021. 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 2, 2021. This facility may be terminated upon notice, is reviewed annually for renewal or modification, and is supported by a corporate guarantee.

Note 8. Restructuring Activities

The following table summarizes our restructuring related activities during fiscal year 2021, 2020 and 2019:

	Severance and Benefits			Facilities and Other	
(In thousands)	Fiscal 2021 Plan	Q4 2020 Plan	Prior Years' Plan	Prior Years' Plans	Total
Restructuring liability June 29, 2018	$ —	$ —	$ 1,646	$ 266	$ 1,912
Charges, net	—	—	736	—	736
Cash payments	—	—	(1,293)	(23)	(1,316)
Foreign currency translation (gain) loss	—	—	—	(5)	(5)
Balance as of June 28, 2019	—	—	1,089	238	1,327
Charges, net	—	1,879	2,170	—	4,049
Cash payments	—	(322)	(2,314)	—	(2,636)
Foreign currency translation (gain) loss	—	—	—	(2)	(2)
Balance as of July 3, 2020	—	1,557	945	236	2,738
Charges, net	2,414	92	(235)	—	2,271
Cash payments	(205)	(1,440)	(646)	—	(2,291)
Foreign currency translation (gain) loss	—	7	—	12	19
Balance as of July 2, 2021	$ 2,209	$ 216	$ 64	$ 248	$ 2,737

As of July 2, 2021, the sum of the accrual balance of $2.7 million was in short-term restructuring liabilities on the consolidated balance sheets.

Fiscal 2021 Plan

During the third and fourth quarters of fiscal 2021, our Board of Directors approved restructuring plans (the “Fiscal 2021 Plan”) to continue to reduce our operating costs and improve profitability. We recorded restructuring charges of $2.4 million related to the Fiscal 2021 Plan in fiscal 2021. Payments related to the accrued restructuring balances for this plan are expected to be fully paid in fiscal 2022.

Q4 2020 Plan

During the fourth quarter of fiscal 2020, our Board of Directors approved a restructuring plan (the “Q4 2020 Plan”) in order to continue to reduce our operating costs and improve profitability to optimize our business model and increase efficiencies. Payments related to the accrued restructuring liability balance for this plan are expected to be fully paid in fiscal 2022.

Q3 2020 Plan

During the third quarter of fiscal 2020, our Board of Directors approved a restructuring plan (the “Q3 2020 Plan”) in order to reduce our operating costs and improve profitability to optimize our business model and increase efficiencies. Payments related to the accrued restructuring liability balance for this plan were fully paid in fiscal 2021.

Fiscal 2020 Plan

During the fourth quarter of fiscal 2019, our Board of Directors approved a restructuring plan (the “Fiscal 2020 Plan”) to primarily consolidate product development, right size our resources to support our international business and other support functions. Payments related to the accrued restructuring liability balance for this plan were fully paid in fiscal 2021.

Fiscal 2018-2019 Plan

During the fourth quarter of fiscal 2018, our Board of Directors approved a restructuring plan (the “Fiscal 2018-2019 Plan”) to consolidate back-office support functions and align resources by geography to lower our expense structure. We completed the restructuring activities under the Fiscal 2018-2019 Plan at the end of fiscal 2019. Payments related to the accrued restructuring liability balance for this plan were fully paid in fiscal 2021.

Note 9. Stockholders’ Equity

Stock Repurchase Program

In May 2018, our board of directors approved a repurchase program pursuant to which authorized repurchase of up to $7.5 million of our common stock.

The following table summarizes the repurchase of our common stock:

(In thousands, except share and per-share amounts)	Shares	Weighted-Average Price Paid per Share		Aggregate purc price	
Fiscal 2021 Treasury Shares	19,587	$	40.16	$	
Fiscal 2020	256,046	$	6.91	$	1
Fiscal 2019	312,538	$	7.39	$	2

Starting in February 2021 repurchased shares were recorded as treasury stock and we do not anticipate retiring them. Treasury stock did not participate in the two-for-one stock split in the form of a stock dividend paid on April 7, 2021. All repurchased shares prior to February 2021 were retired and reflected the two-for-one stock split. As of July 2, 2021, $2.6 million remained available for repurchase under our stock repurchase program.

Stock Incentive Programs

Stock Equity Plan

At July 2, 2021, we had one stock incentive plan for our employees and non-employee directors, the 2018 Incentive Plan (the “2018 Plan”). The 2018 Plan was approved by the stockholders at the fiscal year 2017 Annual Stockholders’ Meeting and it added 500,000 shares to the equity pool of shares available to grant to employees and non-employee directors. The 2018 Plan replaced the 2007 Plan as our primary long-term incentive program (“LTIP”). The 2007 Plan was discontinued following stockholder approval of the 2018 Plan, but the outstanding awards under the 2007 Plan will continue to remain in effect in accordance with their terms; provided that, as shares are returned under the 2007 Plan upon cancellation, termination or otherwise of awards outstanding under the 2007 Plan, such shares will be available for grant under the 2018 Plan. The 2018 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.

Under the 2018 Plan, option exercise prices are equal to the fair market value of our common stock on the date the options are granted using our closing stock price. After vesting, options generally may be exercised within seven years after the date of grant.

Restricted stock units are not transferable until vested and the restrictions lapse upon the achievement of continued employment or service over a specified time period. Restricted stock units issued to employees generally vest three years from the date of grant (three-year cliff or annually over three years). Restricted stock units issued to non-executive board members annually generally vest on the day before the annual stockholders’ meeting.

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

We issue new shares of our common stock to our employees upon the exercise of stock options, vesting of restricted stock awards and units or vesting of performance share awards and units. All awards that are canceled prior to vesting or expire unexercised are returned to the approved pool of reserved shares and made available for future grants under the 2018 Plan. Shares of our common stock remaining available for future issuance under the 2018 Plan totaled 784,793 as of July 2, 2021.

On March 3, 2020, our Board of Directors 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, to our stockholders of record as of the close of business on March 3, 2020, (the “Record Date”). 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 per one one-thousandth of a Preferred Share, subject to adjustment. Until the rights become exercisable, they will not be evidenced by separate certificates and will trade automatically with shares of the Company’s common stock. The Rights have a de minimis fair value. The complete terms of the Rights are set forth in a Tax Benefit Preservation Plan (the “Plan”), dated as of March 3, 2020, and amended as of August 27, 2020, 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 Code. We submitted the Plan to a stockholder vote and our stockholders voted to approve the Plan at the 2020 Annual Meeting of Stockholders.

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.

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 2, 2021, 112,452 shares were reserved for future issuances under the ESPP. We issued 2,744 shares under the ESPP during fiscal 2021.

Share-Based Compensation

Total following table presents the compensation expense for share-based awards included in our consolidated statements of operations for fiscal 2021, 2020 and 2019:

	Fiscal Year		
(In thousands)	2021	2020	2019
By Expense Category:			
Cost of product sales and services	$ 372	$ 182	$ 170
Research and development	250	112	150
Selling and administrative	2,299	1,392	1,403
Total share-based compensation expense	$ 2,921	$ 1,686	$ 1,723
By Types of Award:			
Options	$ 757	$ 588	$ 389
Restricted stock awards and units	857	743	879
Performance share awards and units and market-based stock units	1,307	355	455
Total share-based compensation expense	$ 2,921	$ 1,686	$ 1,723

The following table summarizes the unamortized compensation expense and the remaining years over which such expense would be expected to be recognized, on a weighted-average basis, by type of award:

	July 2, 2021	
	Unamortized Expense	Weighted-Average Remainin Recognition Period
	(In thousands)	(Years)
Options	$ 976	1.58
Restricted stock awards and units	$ 1,138	1.45
Performance share awards and units	$ 2,232	1.50

Stock Options

A summary of the combined stock option activity under our equity plans during fiscal 2021 is as follows:

	Shares	Weighted-Average Exercise Price-	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
			(Years)	(In thousands)
Options outstanding as of July 3, 2020	643,436	$ 8.65	4.20	
Granted	243,810	$ 12.02		
Exercised	(227,422)	$ 8.12		
Forfeited	(37,998)	$ 10.05		
Expired	(81,036)	$ 13.81		
Options outstanding as of July 2, 2021	540,790	$ 9.55	5.38	$ 12,090
Options vested and expected to vest as of July 2, 2021	540,790	$ 9.55	5.38	$ 12,090
Options exercisable as of July 2, 2021	66,592	$ 8.40	3.86	$ 1,564

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 2, 2021 of $31.88, 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 2, 2021.

The fair value of each option grant under our 2018 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		
	2021	2020	2019
Expected dividends	— %	— %	— %
Expected volatility	48.5 %	51.7 %	59.0 %
Risk-free interest rate	0.2 %	1.7 %	2.80 %
Expected term (in years)	3.0	4.6	4.5

The following summarizes all of our stock options outstanding and exercisable as of July 2, 2021:

Actual Range of Exercise Prices			Options Outstanding			Options Exercisable	
			Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
				(Years)			
$6.42	—	$6.42	23,942	5.88	$ 6.42	7,982	$ 6.42
$7.23	—	$7.23	182,984	5.22	$ 7.23	—	$ —
$7.44	—	$27.01	333,864	5.43	$ 11.00	58,610	$ 8.66
			540,790	5.38	$ 9.55	66,592	$ 8.40

Additional information related to our stock options is summarized below:

(In thousands)	Fiscal Year		
	2021	2020	2019
Intrinsic value of options exercised	$ 2,208	$ 3	$ 2
Fair value of options vested	$ 484	$ 499	$ 23

Restricted Stock Awards and Units

A summary of the status of our restricted stock as of July 2, 2021 and changes during fiscal 2021 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock outstanding as of July 3, 2020	161,658	$ 7.14
Granted	120,122	$ 12.51
Vested and released	(64,372)	$ 7.25
Forfeited	(28,164)	$ 7.48
Restricted stock outstanding as of July 2, 2021	189,244	$ 10.46

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 2021, 2020 and 2019 was $2.1 million, $1.7 million and $2.2 million, respectively.

Market-Based Stock Units

A summary of the status of our market-based stock units granted during fiscal 2020 as of July 2, 2021 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock outstanding as of July 3, 2020	93,000	$ 9.53
Granted	72,000	14.07
Restricted stock outstanding as of July 2, 2021	165,000	$ 11.51

The fair value for each market-based stock units with market condition was estimated using the 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	
	2021	2020
Expected dividends	—	—
Expected volatility	53.2% - 48.9%	36.4% - 47.3%
Risk-free interest rate	.13% - .19%	1.57% - 1.58%
Weighted-average grant date fair value per share granted	$ 14.07	$ 9.53

Performance Share Awards and Units

A summary of the status of our performance shares awards and units as of July 2, 2021 and changes during fiscal 2021 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Performance share awards and units outstanding as of July 3, 2020	151,536	$ 7.95
Granted	76,706	$ 11.84
Vested and released	(99,186)	$ 3.82
Forfeited/Cancelled	(25,728)	$ 8.84
Performance share awards and units outstanding as of July 2, 2021	103,328	$ 14.58

Note 10. 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 regions 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 2021, 2020 and 2019 were as follows:

	Fiscal Year		
(In thousands)	2021	2020	2019
North America	$ 183,071	$ 151,709	$ 132,884
Africa and Middle East	44,023	37,595	48,305
Europe and Russia	8,826	11,157	16,933
Latin America and Asia Pacific	38,991	38,181	45,736
Total Revenue	$ 274,911	$ 238,642	$ 243,858

Revenue by country comprising more than 5% of our total revenue for fiscal 2021, 2020 and 2019 was as follows:

(In thousands, except percentages)	Revenue	% of Total Revenue
Fiscal 2021:		
United States	$ 181,842	66.1 %
Fiscal 2020:		
United States	$ 147,795	61.9 %
Philippines	$ 12,550	5.3 %
Fiscal 2019:		
United States	$ 129,929	53.3 %
Philippines	$ 24,368	10.0 %

Our long-lived assets, consisting primarily of net property, plant and equipment, by geographic areas based on the physical location of the assets as of July 2, 2021 and July 3, 2020 were as follows:

(In thousands)	July 2, 2021	July 3, 2020
New Zealand	$ 6,840	$ 8,342
United States	3,434	4,829
United Kingdom	115	2,420
Other countries	1,312	1,320
Total	$ 11,701	$ 16,911

During fiscal 2021 management initiated the sale of our facility located in Lanarkshire, Scotland. Therefore, the carrying value of $2.2 million relating to the real property was reclassified to assets held for sale in the consolidated balance sheet.

Note 11. Income Taxes

Income before provision for income taxes during fiscal year 2021, 2020 and 2019 consisted of the following:

	Fiscal Year		
(In thousands)	2021	2020	2019
United States	$ 26,325	$ 9,497	$ 5,827
Foreign	(3,885)	(5,788)	(4,277)
Total income before income taxes	$ 22,440	$ 3,709	$ 1,550

(Benefit from) provision for income taxes for fiscal year 2021, 2020 and 2019 were summarized as follows:

(In thousands)	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Current provision (benefit):			
Federal	$ (60)	$ (10)	$ —
Foreign	2,128	3,589	527
State and local	221	45	45
	2,289	3,624	572
Deferred provision (benefit):			
Federal	(75,587)	(744)	(7,482)
Foreign	983	572	(1,278)
State and local	(15,384)	—	—
	(89,988)	(172)	(8,760)
Total (benefit from) provision for income taxes	$ (87,699)	$ 3,452	$ (8,188)

The (benefit from) provision for income taxes differed from the amount computed by applying the federal statutory rate of 21.0%, to our income before (benefit from) provision for income taxes as follows:

(In thousands)	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Tax provision at statutory rate	$ 4,713	$ 779	$ 308
Valuation allowances	(95,796)	(6,577)	(13,461)
Permanent differences	(346)	(347)	664
State and local taxes, net of U.S. federal tax benefit	1,436	542	2,008
Foreign income taxed at rates different than the U.S. statutory rate	209	764	1,488
Stock-based compensation excess tax benefits	(482)	—	—
Tax credit/deductions - generated and expired	108	99	2,167
Foreign withholding taxes	1,184	303	911
Brazil withholding tax receivable	72	—	(1,877)
Change in uncertain tax positions	102	2,674	859
Return-to-provision/Deferred true-up adjustments	—	5,634	(1,371)
Other	1,101	(419)	116
Total provision for (benefit from) income taxes	$ (87,699)	$ 3,452	$ (8,188)

Our (benefit from) provision for income taxes was $87.7 million of benefit for fiscal 2021, $3.5 million of expense for fiscal 2020 and $8.2 million of benefit for fiscal 2019. Our tax benefit for fiscal 2021 was primarily due to the release of valuation allowance on our U.S. federal and state deferred tax assets.

Our tax expense for fiscal 2020 was primarily due to tax expense related to profitable foreign subsidiaries and increase in our reserve for uncertain tax positions.

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

(In thousands)	July 2, 2021	July 3, 2020
Deferred tax assets:		
Inventory	$ 5,279	$ 4,849
Accruals and reserves	3,437	2,923
Bad debts	392	201
Amortization	1,530	1,585
Stock compensation	552	465
Deferred revenue	1,960	2,124
Unrealized exchange gain/loss	197	129
Other	3,433	4,845
Tax credit carryforwards	5,447	5,498
Tax loss carryforwards	119,287	126,550
Total deferred tax assets before valuation allowance	141,514	149,169
Valuation allowance	(37,447)	(136,097)
Total deferred tax assets	104,067	13,072
Deferred tax liabilities:		
Branch undistributed earnings reserve	130	57
Depreciation	450	142
Right of use assets	634	556
Other	—	63
Total deferred tax liabilities	1,214	818
Net deferred tax assets	$ 102,853	$ 12,254
As Reported on the Consolidated Balance Sheets		
Deferred income tax assets	$ 103,467	$ 12,799
Deferred income tax liabilities	614	545
Total net deferred income tax assets	$ 102,853	$ 12,254

Our valuation allowance related to deferred income taxes, as reflected in our consolidated balance sheets, was $37.4 million as of July 2, 2021 and $136.1 million as of July 3, 2020. The change in valuation allowance for the fiscal years ended July 2, 2021 and July 3, 2020 was a decrease of $98.7 million and $6.8 million. The decrease in the valuation allowance in fiscal 2021 was primarily due to the release of certain U.S. federal, state, and foreign valuation allowances, partially offset by losses in tax jurisdictions in which we cannot recognize tax benefits. During the third quarter of fiscal 2021, we recorded a valuation allowance release of $92.2 million as a discrete item based on management's reassessment of the amount of its U.S. federal and state deferred tax assets that are more likely than not to be realized, primarily as a result of increases in U.S. profitability in the current period and expectations of continued profitability in future periods. In performing our analysis, we used the most updated plans and estimates that we currently use to manage the underlying business and calculated the utilization of our deferred tax assets. We continue to maintain a valuation allowance of $1.4 million on certain U.S. federal and state deferred tax assets that we believe is not more likely than not to be realized in future periods.

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, including tax loss carryforwards that are attributable to the Microwave Communication Division when it was a division of Harris. There have been no settlement payments recorded since the acquisition date.

Tax loss and credit carryforwards as of July 2, 2021 have expiration dates ranging between one year and no expiration in certain instances. The amounts of U.S. federal tax loss carryforwards as of July 2, 2021 and July 3, 2020 were $382.3 million ($303.8 million and $78.5 million to Harris tax attributes) and $404.1 million ($325.6 million and $78.5 million related to Harris tax attributes), respectively, and begin to expire in fiscal 2023. The amount of U.S. federal and state tax credit carryforwards as of July 2, 2021 was $6.3 million, and certain credits will begin to expire in fiscal

2022. The amount of foreign tax loss carryforwards as of July 2, 2021 was $182.8 million and certain losses begin to expire in fiscal 2022. The amount of foreign tax credit carryforwards as of July 2, 2021 was $2.9 million, and certain credits will begin to expire in fiscal 2026.

United States income taxes have not been provided on basis differences in foreign subsidiaries of $2.8 million and $1.6 million as of July 2, 2021 and July 3, 2020, respectively, because of our intention to reinvest these earnings indefinitely. Additionally, no foreign withholding taxes, federal or state taxes have been provided if these unremitted earnings of the Company's foreign subsidiaries were distributed, as such amounts are considered permanently reinvested. It is not practicable to estimate the additional income taxes, including applicable foreign withholding taxes, that would be due upon the repatriation of these earnings.

As of July 2, 2021 and July 3, 2020, we had unrecognized tax benefits of $17.3 million and $18.0 million, respectively, as revised for correction to unrecognized tax benefits in the table below, for various federal, foreign, and state income tax matters. Unrecognized tax benefits decreased by $0.8 million. Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were $5.2 million and $5.8 million, respectively, as of July 2, 2021 and July 3, 2020. These unrecognized tax benefits are presented on the accompanying consolidated balance sheets 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 $0.6 million as of July 2, 2021 and $0.7 million as of July 3, 2020. An immaterial amount of penalties have been accrued.

Our unrecognized tax benefit activity for fiscal 2021, 2020 and 2019 was as follows:

(In thousands)	Amount
Unrecognized tax benefit as of June 29, 2018	$ 12,840
Additions for tax positions in prior periods	287
Additions for tax positions in current periods	1,501
Decreases for tax positions in prior periods	(1,674)
Decreases related to change of foreign exchange rate	33
Unrecognized tax benefit as of June 28, 2019	12,987
Additions for tax positions in prior periods	7,023
Additions for tax positions in current periods	3,094
Decreases for tax positions in prior periods	(4,692)
Decreases related to change of foreign exchange rate	(365)
Unrecognized tax benefit as of July 3, 2020	18,047
Additions for tax positions in prior periods	184
Additions for tax positions in current periods	869
Decreases for tax positions in prior periods	(1,788)
Decreases related to change of foreign exchange rate	(57)
Unrecognized tax benefit as of July 2, 2021	$ 17,255

Our unrecognized tax benefit decreased for tax positions in prior periods by $0.9 million, $3.8 million and $0.0 million for fiscal year 2021, 2020 and 2019, respectively, related to settlements with tax authorities in the table above.

Our unrecognized tax benefit decreased for tax positions in prior periods by $0.6 million, $0.9 million and $0.2 million for fiscal year 2021, 2020 and 2019, respectively, related to lapses of the applicable statute of limitations in the table above.

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

During the first quarter of 2021, we received a tax refund of $1.2 million from the Federal Revenue of Brazil related to our withholding tax refund claim and recorded minimal tax expense related to interest as a discrete item.

During the second quarter of 2021, we effectively settled a tax audit with the Financial Administration of the Republic of Slovenia for fiscal years 2016 to 2018 and recorded $0.4 million of tax expense related to the denial of research and development tax relief as a discrete item. During the second quarter of 2021, we effectively settled a tax audit with the General Authority of Zakat and Tax in Saudi Arabia for fiscal years 2016 to 2018 and recorded minimal tax benefit related to the release of previously recorded ASC 740-10 reserve as a discrete item.

During the first and third quarter of 2021, we settled tax litigation cases with the Income Tax Department of Ministry of Finance for fiscal years 2005 to 2011 and recorded minimal tax benefit related to the release of previously recorded ASC740-10 reserve as a discrete item.

On March 27, 2020, the US enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided certain tax relief measures including, but not limited to, (1) a five-year net operating loss carryback, (2) changes in the deduction of interest, (3) acceleration of alternative minimum tax credit (AMT) refunds, and (4) a technical correction to allow accelerated deductions for qualified improvement property. The Tax Cuts and Jobs Act repealed the corporate AMT credit and allowed taxpayers to claim any unused AMT credit over four tax years beginning in tax year 2018. The CARES Act allows for acceleration of the refundable AMT credit up to 100% of the AMT credit to be refunded in tax year 2018. During the third quarter of 2021, we received a tax refund of $3.5 million from the U.S. Internal Revenue Service primarily related to our refundable AMT credit claim under the CARES Act and recorded minimal tax benefit related to interest as a discrete item.

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

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

Note 12. Commitments and Contingencies

Purchase Orders and Other Commitments

From time to time in the normal course of business, we may enter into purchasing agreements with our suppliers that require us to accept delivery of, and remit full payment for, finished products that we have ordered, finished products that we requested be held as safety stock, and work in process started on our behalf in the event we cancel or terminate the purchasing agreement. Because these agreements do not specify fixed or minimum quantities, do not specify minimum or variable price provisions, and do not specify the approximate timing of the transaction, and we have no present intention to cancel or terminate any of these agreements, we currently do not believe that we have any future liability under these agreements. As of July 2, 2021, we had outstanding purchase obligations with our suppliers or contract manufacturers of $31.4 million. In addition, we had contractual obligations of approximately $2.5 million associated with software as a service and software maintenance support as of July 2, 2021.

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 2, 2021, 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 2, 2021, we had commercial commitments of $583.3 million outstanding that were not recorded on our consolidated balance sheets. During the second quarter of fiscal 2017, we recorded a payout in cost of revenues of $0.4 million on the performance guarantees to a contractor in the Middle East region. We believe the customer improperly drew down on the performance bond and intend to pursue all remedies available to recover the payment. We do not believe, based on historical experience and information currently available, that it is probable that any significant amounts will be required to be paid on the performance guarantees in the future.

Indemnifications

Under the terms of substantially all of our license agreements, we have agreed to defend and pay any final judgment against our customers arising from claims against such customers that our products infringe the intellectual property rights of a third party. As of July 2, 2021, we have not received any notice that any customer is subject to an infringement claim arising from the use of our products; we have not received any request to defend any customers from infringement claims arising from the use of our products; and we have not paid any final judgment on behalf of any customer related to an infringement claim arising from the use of our products. Because the outcome of infringement disputes is related to the specific facts of each case and given the lack of previous or current indemnification claims, we cannot estimate the maximum amount of potential future payments, if any, related to our indemnification provisions. As of July 2, 2021, we had not recorded any liabilities related to these indemnifications.

Legal Proceedings

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

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

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

In March 2016, an enforcement action by the Indian Department of Revenue, Ministry of Finance was brought against our subsidiary Aviat Networks (India) Private Limited ("Aviat India") relating to the non-realization of intercompany receivables and non-payment of intercompany payables, which originated from 1999 to 2012, within the time frames dictated by the Indian regulations under the Foreign Exchange Management Act. In November 2017, the Indian Department of Revenue, Ministry of Finance also initiated a similar action against Telsima Communications Private Limited ("Telsima India"), a subsidiary of the Company, relating to the non-realization of intercompany receivables and non-payment of intercompany payables which originated from the period prior to our acquisition of Telsima India in February 2009. In September 2019, our directors of Aviat India appeared before the Ministry of Finance Enforcement Directorate. No settlement offers were discussed at the meeting and the matter is still ongoing with no subsequent hearing date currently scheduled. We have accrued an immaterial amount representing the estimated probable loss for which we would settle the matter. We currently cannot form an estimate of the range of loss in excess of our amounts already accrued. If the outcome of this matter is greater than the current immaterial amount accrued, we intend to dispute it vigorously.

Periodically, we review the status of each significant matter to assess the potential financial exposure. If a potential loss is considered probable and the amount can be reasonably estimated, we reflect the estimated loss in our 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.

COVID-19

In March 2020, the World Health Organization characterized a recent pandemic of respiratory illness caused by novel coronavirus disease, known as COVID-19, as a pandemic. The pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the COVID-19 virus. The COVID-19 virus may have an impact on our operations, supply chains and distribution systems and increase our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking or requiring. The extent to which the COVID-19 pandemic impacts our business, prospects and results of operations will depend on future developments, which are highly uncertain, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, including ongoing vaccination efforts, any new variant strains of the underlying virus and how quickly and to what extent normal economic and operating activities can resume. Management is actively monitoring the impact of COVID-19 on our financial condition, liquidity, operations, suppliers, industry, and workforce.

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

The impact to our supply chain lead times and ability to fulfill orders was minimal for fiscal 2021. However, depending on pandemic-related factors like the uncertain duration of temporary manufacturing restrictions as well as our ability to perform field services during shelter in place orders, we could experience constraints and delays in fulfilling customer orders in future periods. We continue to monitor, assess and adapt to the situation and prepare for implications to our business, supply chain and customer demand. We expect these challenges to continue until business and economic activities return to more normal levels. The financial results for fiscal 2021 reflect some of the reduced activity experienced during the period in various locations around the world and are not necessary indicative of the results for the next fiscal period or fiscal year.

Note 13. Subsequent Event

On August 25, 2021, our Board of Directors approved a restructuring plan to further reduce operating costs and improve profitability. We estimate the restructuring charges, consist of one-time severance charges, will be approximately $0.8 million to be recorded in the first quarter of fiscal 2022. We anticipate it will generate approximately $0.6 million in annual net savings, the majority of which will be allocated to support growth-related initiatives to be in a stronger position to drive both top- and bottom- line performance.

Note 14. 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. Summarized quarterly data for fiscal 2021 and 2020 were as follows:

(In thousands, except per share amounts)	Q1 Ended 9/28/2020	Q2 Ended 1/1/2021	Q3 Ended 3/29/2021	Q4 Ended 7/2/2021
Fiscal 2021				
Revenue	$ 66,290	$ 70,531	$ 66,404	$ 71,686
Gross margin	24,249	26,909	25,578	25,879
Operating income	6,565	7,878	4,035	3,732
Net income	5,936	6,641	94,731	2,831
Per share data:				
Basic net income per common share	$ 0.55	$ 0.60	$ 8.49	$ 0.25
Diluted net income per common share	$ 0.54	$ 0.58	$ 8.00	$ 0.24

(In thousands, except per share amounts)	Q1 Ended 9/27/2019	Q2 Ended 12/27/2019	Q3 Ended 4/3/2020	Q4 Ended 7/3/2020
Fiscal 2020				
Revenue	$ 58,614	$ 55,997	$ 61,379	$ 62,652
Gross margin	22,556	18,319	21,961	21,860
Operating income (loss)	1,519	(1,497)	1,236	2,120
Net income (loss)	54	(1,671)	731	1,143
Per share data:				
Basic net income (loss) per common share	$ 0.01	$ (0.15)	$ 0.07	$ 0.11
Diluted net income (loss) per common share	$ —	$ (0.15)	$ 0.07	$ 0.10

The following tables summarize charges included in our results of operations for each of the fiscal quarters presented:

(In thousands)	Q1 Ended 9/28/2020	Q2 Ended 1/1/2021	Q3 Ended 3/29/2021	Q4 Ended 7/2/2021
Fiscal 2021				
Restructuring charges	$ —	$ —	$ 1,162	$ 1,109
Release of valuation allowance	$ —	$ —	$ (92,200)	$ —

(In thousands)	Q1 Ended 9/27/2019	Q2 Ended 12/27/2019	Q3 Ended 4/3/2020	Q4 Ended 7/3/2020
Fiscal 2020				
Restructuring charges	$ 1,177	$ 381	$ 617	$ 1,874

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

Not applicable.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

There were no changes to our internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) that occurred during the quarter ended July 2, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management 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 Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. GAAP.

Management, including our CEO and CFO, assessed our internal control over financial reporting as of July 2, 2021, the end of our fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Management's assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. GAAP. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

BDO USA LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of July 2, 2021. The report is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 9B. *Other Information*

Subsequent Event

On August 25, 2021, our Board of Directors approved a restructuring plan to further reduce operating costs and improve profitability. We estimate the restructuring charges, consist of one-time severance charges, will be approximately $0.8 million to be recorded in the first quarter of fiscal 2022. We anticipate it will generate approximately $0.6 million in annual net savings, the majority of which will be allocated to support growth-related initiatives to be in a stronger position to drive both top- and bottom- line performance.

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 2, 2021.

Item 10. *Directors, Executive Officers and Corporate Governance*

We adopted a Code of Conduct that is available at www.aviatnetworks.com. We most recently amended and restated our Code of Conduct on February 10, 2021, and posted it on our website. 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," which is incorporated herein by reference.

All information required to be disclosed in this Item 10 that is not otherwise contained herein 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

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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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:	August 25, 2021	By:	/s/ Eric Chang
			Eric Chang
			Senior Vice President, 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.

Signature	Title	Date
/s/ Peter A. Smith Peter A. Smith	President and Chief Executive Officer (Principal Executive Officer)	August 25, 2021
/s/ Eric Chang Eric Chang	Senior Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	August 25, 2021
/s/ John Mutch John Mutch	Chairman of the Board	August 25, 2021
/s/ Michele Klein Michele Klein	Director	August 25, 2021
/s/ Kenneth Kong Kenneth Kong	Director	August 25, 2021
/s/ Dahlia M. Loeb Dahlia M. Loeb	Director	August 25, 2021
/s/ John Quicke John Quicke	Director	August 25, 2021
/s/ James C. Stoffel James C. Stoffel	Director	August 25, 2021

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

AVIAT NETWORKS, INC.

Years Ended July 2, 2021, July 3, 2020 and June 28, 2019

(In thousands)	Balance at Beginning of Period	Charged to (Credit from) Costs and Expenses	Deductions	Balance at End of Period
Allowances for collection losses:				
Year ended July 2, 2021	$ 1,841	$ 300	$ —	$ 2,141
Year ended July 3, 2020	$ 1,602	$ 248	$ 9 (1)	$ 1,841
Year ended June 28, 2019	$ 1,588	$ 120	$ 106 (2)	$ 1,602

(1) - Consisted of changes to allowance for collection losses of $0 for foreign currency translation gain and $9 thousand for uncollectible accounts charged off, net of recoveries on accounts previously charged off.

(2) - Consisted of changes to allowance for collection losses of $0 for foreign currency translation gain and $107 thousand for uncollectible accounts charged off, net of recoveries on accounts previously charged off.

EXHIBIT INDEX

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

Ex. #	Description
3.1	Amended and Restated Certificate of Incorporation of Aviat Networks, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q filed with the SEC on February 10, 2017, File No. 001-33278)
3.2	Amended and Restated Bylaws of Aviat Networks, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on September 24, 2020, File No. 001-33278)
4.1	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. File No. 001-33278)
4.2	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)
4.3	Amended and Restated Tax Benefit Preservation Plan, dated as of August 27, 2020, 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 August 31, 2020, File No. 011-33278)
4.4*	Description of Registered Securities
10.1	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)
10.2	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)
10.3+	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)
10.4+	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)
10.5	Third Amended and Restated Loan and Security Agreement, dated as of June 29, 2018, 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 June 29, 2018, File No. 001-33278)
10.5.1	Amendment #1 to Third Amended and Restated Loan and Security Agreement, dated as of September 28, 2018, 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 4, 2018, File No. 001-33278)
10.5.2	Amendment #2 to Third Amended and Restated Loan and Security Agreement, dated as of June 10, 2019, 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 June 12, 2019, File No. 001-33278)
10.5.3	Third Amendment to Third Amended and Restated Loan and Security Agreement, dated as of May 4, 2020, 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 May 5, 2020, File No. 001-33278)
10.5.4	Fourth Amendment to Third Amended and Restated Loan and Security Agreement, dated as of May 17, 2021, by and among Aviat Networks, Inc., Aviat U.S., Inc., Aviat Networks (S) Pte. Ltd. and Silicon Valley Bank (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on May 5, 2020, File No. 001-33278)

Ex. #	Description
10.6	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)
10.7+	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)
10.7.1+	Amendment to Employment Agreement, dated June 20, 2018, between Aviat Networks, Inc. and Eric Chang (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on June 25, 2018, File No. 001-33278)
10.7.2+	Amendment to Employment Agreement, dated April 3, 2020, 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 April 3, 2020, File No. 001-33278)
10.8	Lease Agreement, dated June 8, 2016, between Aviat Networks, Inc., through its wholly owned subsidiary Aviat U.S., Inc., and The Irvine Company LLC (incorporated by reference to Exhibit 10.34 to the Annual Report on Form 10-K for fiscal year end July 1, 2016 filed with the SEC on September 9, 2016, File No. 001-33278)
10.9+	Employment Agreement, dated January 2, 2020, between Aviat Networks, Inc. and Peter Smith (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 2, 2020, File No. 001-33278)
10.9.1+	First Amendment to the Employment Agreement between Aviat Networks, Inc. and Peter Smith, dated May 17, 2021 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 18, 2021, File No. 001-33278)
10.9.2+	Second Amendment to Employment Agreement, dated July 4, 2021, between the Company and Pete Smith (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on July 7, 2021, File No. 001-33278)
10.10+	Aviat Networks, Inc. 2018 Incentive Plan (incorporated by reference to Appendix A to the Registrant's Proxy Statement on schedule 14A filed with the SEC on February 12, 2018, File No. 001-33278)
21*	List of Subsidiaries of Aviat Networks, Inc.
23.1*	Consent of BDO USA, 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

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

Exhibit 4.4

AVIAT NETWORKS, INC.

DESCRIPTION OF REGISTERED SECURITIES

General

Aviat Networks, Inc. (the "Company," "we," or "our") is incorporated in the State of Delaware. We have two classes of registered securities, common stock and preferred share purchase rights ("Rights"). As of August 20, 2021, we have 11,165,221 shares of the Company's common stock and 11,165,221 Rights outstanding.

The rights of our security holders are generally covered by Delaware law and our certificate of incorporation ("Certificate") and by-laws ("Bylaws") (each as amended or restated and in effect as of the date hereof). The terms of our securities are therefore subject to Delaware law, including the Delaware General Corporation Law (the "DGCL"), and the common and constitutional law of Delaware. Additionally, the terms of the Rights are described in that certain Tax Benefit Preservation Plan, dated as of March 3, 2020 (as amended and restated on August 27, 2020, the "Plan"), between the Company and Computershare Inc., as rights agent. We submitted the Plan to a stockholder vote and our stockholders approved the Plan at the 2020 Annual Meeting of Stockholders.

This description is a summary and does not purport to be complete. Our Certificate, Bylaws and the Plan are incorporated by reference or filed as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part, and amendments or restatements of each will be filed with the Securities and Exchange Commission (the "SEC") in future periodic or current reports in accordance with the rules of the SEC. We encourage you to read our Certificate and Bylaws, the Plan, and the applicable provisions of the DGCL for additional information.

Authorized Capital Stock

We are authorized to issue 300,000,000 shares of common stock, par value $0.01 per share and 50,000,000 shares of preferred stock, par value $0.01 per share.

Common Stock

Voting Rights

Holders of our common stock are entitled to one vote per share in the election of directors and on all other matters submitted to a vote at a meeting of shareholders. Holders of our common stock do not have cumulative voting rights, meaning that holders of a majority of the shares of common stock voting for the election of directors can elect all the directors if they choose to do so. The voting rights of holders of our Series A Participating Preferred Stock ("Series A Preferred Stock"), which are discussed in further detail below, or of any future series of preferred stock issued by the board of directors of the Company (the "Board"), may affect the voting power associated with our common stock.

Dividend Rights

Subject to prior rights and preferences that may be applicable to any outstanding shares or series of preferred stock, holders of our common stock are entitled to dividends when, as and if declared by our Board out of funds legally available therefor.

Liquidation Rights

If we liquidate or dissolve our business, whether voluntarily or involuntarily, the holders of common stock will share ratably in the distribution of assets available for distribution to stockholders after creditors are paid and preferred stockholders, including holders of Series A Preferred Stock, if any, receive their distributions.

Other

Our common stock has no preemptive or conversion rights and is not entitled to the benefits of any redemption or sinking fund provision. The outstanding shares of our common stock are fully paid and non-assessable with no restrictions on alienability.

Stock Exchange Listing

Our common stock is traded on The Nasdaq Stock Market LLC under the symbol “AVNW.”

Preferred Stock

The Board generally will be authorized, without further stockholder approval, to issue from time to time up to an aggregate of 50,000,000 shares of preferred stock, in one or more series. Each series of preferred stock will have the number of shares, designations, preferences, voting powers (or special, preferential or no voting powers), relative, participating, optional or other special rights and privileges and such qualifications, limitations or restrictions as is determined by the Board, which may include, among others, the right to provide that the shares of each such series may be: (i) subject to a sinking fund provision or other conditions upon which shares shall be redeemed or purchased; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Company; (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock of the Company at such price or prices or at such rates of exchange and with such adjustments, if any; or (v) entitled to the benefit of such limitations, if any, on the issuance of additional shares of such series or shares of any other series of preferred stock.

The rights of the holders of common stock will generally be subordinate to the rights of holders of any preferred stock issued in the future. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could adversely affect the voting power or other rights of the holders of common stock, and could make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, a majority of our outstanding voting stock. As of the date hereof, the Board has designated one series of preferred stock, the Series A Preferred Stock. No shares of the Series A Preferred Stock are currently issued or outstanding.

Preferred Share Purchase Rights

Rights Plan

On March 3, 2020, the Board authorized and declared a dividend distribution of one Right for each outstanding share of common stock, par value $0.01 per share, of the Company to stockholders of record as of the close of business on March 13, 2020 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Preferred Stock, par value $0.01 per share, of the Company at an exercise price of $35.00 (the "Exercise Price") per one one-thousandth of a share of Series A Preferred Stock, subject to adjustment. The complete terms of the Rights are set forth in the Plan.

The Plan is intended to protect the Company's ability to use its net operating losses, any loss or deduction attributable to a "net unrealized built-in loss" and other tax attributes (collectively, "Tax Benefits"). If the Company experiences an "ownership change," as defined in Section 382 of the Internal Revenue Code (the "Code"), its ability to use 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. Generally, an "ownership change" occurs if the percentage of the Company's stock owned by one or more "five percent stockholders" increases by more than 50 percentage points over the lowest percentage of stock owned by such stockholders at any time during the prior three-year period or, if sooner, since the last "ownership change" experienced by the Company.

The Plan is intended to act as a deterrent to any person acquiring 4.9% or more of the outstanding shares of common stock without the approval of the Board. This would protect the Tax Benefits because changes in ownership by a person owning less than 4.9% of the shares of common stock are not included in the calculation of "ownership change" for purposes of Section 382 of the Code. We submitted the Plan to a stockholder vote and our stockholders approved the Plan at the 2020 Annual Meeting of Stockholders.

Distribution and Transfer of Rights; Rights Certificates

The Board declared a dividend of one Right for each outstanding share of common stock as of the Record Date. Prior to the Distribution Date referred to below:

- The Rights are evidenced by and trade with the certificates for the shares of common stock (or, with respect to any uncertificated shares of common stock registered in book entry form, by notation in book entry), and no separate rights certificates will be distributed;
- New certificates issued after the Record Date for shares of common stock will contain a legend incorporating the Plan by reference (for uncertificated shares of common stock registered in book entry form, this legend will be contained in a notation in book entry); and
- The surrender for transfer of any certificates for shares of common stock (or the surrender for transfer of any uncertificated shares of common stock registered in book entry form) will also constitute the transfer of the Rights associated with such shares of common stock.

Rights will accompany any new shares of common stock that are issued after the Record Date.

Distribution Date

Subject to certain exceptions specified in the Plan, the Rights will separate from the shares of common stock and become exercisable following (1) the 10th business day (or such later date as may be determined by the Board) after the public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership of 4.9% or more of the shares of common stock or (2) the 10th business day (or such later date as may be determined by the Board) after a person or group announces a tender or exchange offer that would result in ownership by a person or group of 4.9% or more of the shares of common stock. For purposes of the Plan, beneficial ownership is defined to include the ownership of derivative securities. Any person or group of affiliated or associated persons who beneficially owns 4.9% or more of the outstanding shares of common stock as of the announcement of the Plan will not be an Acquiring Person, but only for so long as such person or group does not become the beneficial owner of any additional shares of common stock.

The date on which the Rights separate from the shares of common stock and become exercisable is referred to as the "Distribution Date." After the Distribution Date, the Company will mail Rights certificates to the Company's stockholders as of the close of business on the Distribution Date and the Rights will become transferable apart from the shares of common stock. Thereafter, such Rights certificates alone will represent the Rights.

Preferred Shares Purchasable Upon Exercise of Rights

After the Distribution Date, each Right will entitle the holder to purchase, for the Exercise Price, one one-thousandth of a share of Series A Preferred Stock having economic and other terms similar to that of one share of common stock. This portion of a share of Series A Preferred Stock is intended to give the stockholder approximately the same dividend, voting and liquidation rights as would one share of common stock, and should approximate the value of one share of common stock.

More specifically, each one one-thousandth of a share of Series A Preferred Stock, if issued, will:

- not be redeemable;
- entitle holders to quarterly dividend payments of $0.01 per share, or an amount equal to the dividend paid on one share of common stock, whichever is greater;
- entitle holders upon liquidation either to receive $1.00 per share or an amount equal to the payment made on one share of common stock, whichever is greater;
- have the same voting power as one share of common stock (see "Voting Rights of Series A Preferred Stock" below for additional information); and
- entitle holders to a per share payment equal to the payment made on one share of common stock if the shares of common stock are exchanged via merger, consolidation or a similar transaction.

Voting Rights of Series A Preferred Stock

If issued, holders of our Series A Preferred Stock will be entitled to one thousand votes per share of preferred stock (subject to adjustment upon the occurrence of certain specified events, including a stock split, reverse stock split or payment of dividends in common stock) on all matters submitted to a vote of the stockholders of the Company. Except as provided in the Certificate, the Bylaws, any certificate of designation of preferred stock or by law, the holders of Series A Preferred Stock and common stock will vote together as one class on all matters submitted to a vote of the stockholders of the Company. Upon the occurrence and continuance of a default with respect to the payment of dividends to the holders of Series A Preferred Stock, the holders of the Series A Preferred Stock, voting as a class, have the right to elect two directors to the Board, who shall serve for so long as such default continues. After such election and during the continued period of default, the number of directors shall not be increased or decreased except by vote of the holders of the Series A Preferred Stock.

Flip-In Trigger

If an Acquiring Person obtains beneficial ownership of 4.9% or more of the shares of common stock, except pursuant to an offer for all outstanding shares of common stock that the independent members of the Board determine to be fair and not inadequate and to otherwise be in the best interests of the Company and its stockholders after receiving advice from one or more investment banking firms, *then* each Right will entitle the holder thereof to purchase, for the Exercise Price, a number of shares of common stock (or, in certain circumstances, cash, property or other securities of the Company) having a then-current market value of twice the Exercise Price. However, the Rights are not exercisable following the occurrence of the foregoing event until such time as the Rights are no longer redeemable by the Company, as further described below. Following the occurrence of an event set forth in preceding sentence, all Rights that are or, under certain circumstances specified in the Plan, were beneficially owned by an Acquiring Person or certain of its transferees will be null and void.

Flip-Over Trigger

If, after an Acquiring Person obtains 4.9% or more of the shares of common stock, (1) the Company merges into another entity, (2) an acquiring entity merges into the Company or (3) the Company sells or transfers more than 50% of its assets, cash flow or earning power, *then* each Right (except for Rights that have previously been voided as set forth above) will entitle the holder thereof to purchase, for the Exercise Price, a number of shares of common stock of the person engaging in the transaction having a then-current market value of twice the Exercise Price.

Redemption of the Rights

The Rights will be redeemable at the Company’s option for $0.01 per Right (payable in cash, shares of common stock or other consideration deemed appropriate by the Board) at any time on or prior to the 10th business day (or such later date as may be determined by the Board) after the public announcement that an Acquiring Person has acquired beneficial ownership of 4.9% or more of the shares of common stock. Immediately upon the action of the Board ordering redemption, the Rights will terminate and the only right of the holders of the Rights will be to receive the $0.01 redemption price. The redemption price will be adjusted if the Company undertakes a stock dividend or a stock split.

Exchange Provision

At any time after the date on which an Acquiring Person beneficially owns 4.9% or more of the shares of common stock and prior to the acquisition by the Acquiring Person of 50% of the shares of common stock, the Board may exchange the Rights (except for Rights that have previously been voided as set forth above), in whole or in part, for shares of common stock at an exchange ratio of one share of common stock per Right (subject to adjustment). In certain circumstances, the Company may elect to exchange the Rights for cash or other securities of the Company having a value approximately equal to one share of common stock.

Expiration of the Rights

The Rights expire on the earliest of (1) 5:00 p.m., New York City time, on March 3, 2023 (unless such date is extended); (2) the redemption or exchange of the Rights as described above; (3) the repeal of Section 382 of the Code or any other change if the Board determines that the Plan is no longer necessary or desirable for the preservation of the Tax Benefits; (4) the time at which the Board determines that the Tax Benefits are fully utilized or no longer available pursuant to Section 382 of the Code or that an ownership change pursuant to Section 382 of the Code would not adversely impact in any material respect the time period in which the Company could use the Tax Benefits, or materially impair the amount of the Tax Benefits that could be used by the Company in any particular time period, for applicable tax purposes; or (5) a determination by the Board that the Plan is no longer in the best interests of the Company and its stockholders.

Amendment of Terms of the Plan and the Rights

The terms of the Rights and the Plan may be amended in any respect without the consent of the holders of the Rights on or prior to the Distribution Date. Thereafter, the terms of the Rights and the Plan may be amended without the consent of the holders of Rights in order to (1) cure any ambiguities, (2) shorten or lengthen any time period pursuant to the Plan or (3) make changes that do not adversely affect the interests of holders of the Rights.

Voting Rights; Other Stockholder Rights

The Rights will not have any voting rights. Until a Right is exercised, the holder thereof, as such, will have no separate rights as stockholder of the Company.

Anti-Dilution Provisions

The Board may adjust the Exercise Price, the number of shares of Series A Preferred Stock issuable and the number of outstanding Rights to prevent dilution that may occur from a stock dividend, a stock split or a reclassification of the shares of Series A Preferred Stock or common stock.

With certain exceptions, no adjustments to the Exercise Price will be made until the cumulative adjustments amount to at least 1% of the Exercise Price. No fractional shares of Series A Preferred

Stock will be issued and, in lieu thereof, an adjustment in cash will be made based on the current market price of such shares.

Transfer Agent and Registrar

Computershare Investor Services is the transfer agent and registrar for our common stock and the Rights.

Potential Anti-Takeover Effects

Some provisions of our Certificate and Bylaws and of the DGCL could make the acquisition of control of our company and/or the removal of our existing management more difficult, including the following:

- Subject to certain rights provided to the holders of Series A Preferred Stock, our Board fixes the size of the Board, may create new directorships and may appoint new directors to serve in such newly-created positions until the next election of one or more directors by our shareholders.
- Our Board is expressly authorized to amend or repeal our bylaws, or adopt new bylaws, except that certain sections of the Bylaws (as specified therein) may only be amended with the approval of 2/3 of certain specified directors and/or the approval of the stockholders otherwise required by applicable law or the Bylaws for such amendment.
- We have advance notice procedures with respect to shareholder proposals and the nomination of candidates for election as directors.
- Stockholders have no preemptive right to acquire our securities.
- Our Board has ability to authorize and issue undesignated preferred stock. This ability makes it possible for our Board to issue, without stockholder approval, preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us as further described under “Preferred Stock” above.
- As further discussed above, our Board has issued the Rights and adopted the Plan. The Plan is intended to act as a deterrent to any person acquiring 4.9% or more of the outstanding shares of common stock without the approval of the Board in order to preserve certain Tax Benefits.

Additionally, we are a Delaware corporation and are subject to Section 203 of the DGCL. In general, Section 203 prevents us from engaging in a business combination with an “interested stockholder” (generally, a person owning 15% or more of our outstanding voting stock) for three years following the time that person becomes a 15% stockholder unless one of the following is satisfied:

- before that person became a 15% stockholder, our Board approved the transaction in which the stockholder became a 15% stockholder or approved the business combination;
- upon completion of the transaction that resulted in the stockholder’s becoming a 15% stockholder, the stockholder owned at least 85% of our voting stock outstanding at the time the transaction began (excluding stock held by directors who are also officers

and by employee stock plans that do not provide employees with the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); and

after the transaction in which that person became a 15% stockholder, the business combination is approved by our Board and authorized at a stockholders' meeting by at least two-thirds of the outstanding voting stock not owned by the 15% stockholder.

Under Section 203, these restrictions also do not apply to certain business combinations proposed by a 15% stockholder following the disclosure of an extraordinary transaction with a person who was not a 15% stockholder during the previous three years or who became a 15% stockholder with the approval of a majority of our directors. This exception applies only if the extraordinary transaction is approved or not opposed by a majority of our directors who were directors before any person became a 15% stockholder in the previous three years, or the successors of these directors.

These provisions are expected to discourage coercive takeover practices and inadequate takeover bids. They are also designed, in part, to encourage persons seeking to acquire control of the Company to first negotiate with our Board. We believe that the benefits of increased protection give us the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us and that these benefits outweigh the disadvantages of discouraging the proposals. Negotiating with the proponent could result in an improvement of the terms of the proposal.

Exhibit 21

AVIAT NETWORKS, INC.

SUBSIDIARIES AS OF July 2, 2021
(100% direct or indirect ownership by Aviat Networks, Inc.)

Name of Subsidiary	State or Other Jurisdiction of Incorporation
Aviat Networks Algeria S.A.R.L.	Algeria
Aviat Networks (Australia) Pty. Ltd.	Australia
Aviat Networks (Bangladesh) Limited	Bangladesh
Aviat Networks Brasil Servicos em Communicacoes 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 Communications Solutions LLC	Russia
Aviat Net Works Saudi Telecom & Information Technology Co.	Kingdom of Saudi Arabia
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
DMC Stratex Networks (South Africa) (Proprietary) 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

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Aviat Networks, Inc.
Austin, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-255206) and Form S-8 (Nos. 333-224957, 333-209462, 333-178467, 333-163542 and 333-140442) of Aviat Networks, Inc. of our reports dated August 25, 2021 relating to the consolidated financial statements and schedule, and the effectiveness of Aviat Networks, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP

San Jose, California
August 25, 2021

Exhibit 31.1

CERTIFICATION

I, Peter A. Smith, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended July 2, 2021, 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: August 25, 2021

/s/ Peter A. Smith

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

Exhibit 31.2

CERTIFICATION

I, Eric Chang, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended July 2, 2021, 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: August 25, 2021

/s/ Eric Chang

Name:	Eric Chang
Title:	Senior Vice President, Chief Financial Officer

Exhibit 32.1

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 2, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Peter Smith, 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: August 25, 2021

/s/ Peter A. Smith

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

Exhibit 32.2

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 2, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Eric Chang, 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: August 25, 2021

/s/ Eric Chang

Name: Eric Chang

Title: Senior Vice President, Chief Financial Officer