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

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

Form 10-K
(Mark One)

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

For the fiscal year ended June 29, 2012
or

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

Commission File Number 001-33278

AVIAT NETWORKS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-5961564 (I.R.S. Employer Identification No.)
5200 Great America Parkway Santa Clara, California (Address of principal executive offices)	95054 (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Global Market

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

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

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 o No x

Indicate by check mark whether the registrant (l) 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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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; 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," "goa "delivering," "continues," "forecasts," "future," "predict," "might," "could," "potential," or the negative of these terms, and sin words or expressions.

These forward-looking statements are based on estimates reflecting the current beliefs of the senior management of Aviat Networks. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should therefore be considered in light of various important factors, including those set forth in this document. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include the following:

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

Other factors besides those listed here also could adversely affect us. See "Item 1A. Risk Factors" in this Annual Report on Form 10-K for more information regarding factors that may cause our results to differ materially from those expressed or implied by the forward-looking statements contained in this Annual Report on Form 10-K.

You should not place undue reliance on these forward-looking statements, which reflect our management's opinions only as of the date of the filing of this Annual Report on Form 10-K. Forward-looking statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, along with provisions of the Private Securities Litigation Reform Act of 1995, and we undertake no obligation, other than as imposed by law, to update forward-looking statements to reflect further developments or information obtained after the date of filing of this Annual Report on Form 10-K or, in the case of any document incorporated by reference, the date of that document.

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PART I

Item 1. Business

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

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

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

Overview and Description of the Business

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

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

Our wireless systems deliver regional and country-wide backbone in developing nations, where microwave radio installations provide 21st-century communications rapidly and economically. Rural communities, areas with rugged terrain and regions with extreme temperatures benefit from the ability to build an advanced, affordable communications infrastructure despite these challenges. A significant part of our international business consists of supplying wireless segments in small-pocket, remote, rural and metropolitan areas. High-capacity backhaul is one of the fastest growing wireless market segments and is a major opportunity for us. We see the increase in subscriber density and the forecasted growth and introduction of new bandwidth-hungry High Speed Packet Access ("HSPA")/Long Term Evolution ("LTE") mobile broadband services as major drivers for growth in this market.

Revenue from our North America and international regions represented approximately 37% and 63%, respectively, of our revenue in fiscal 2012, 35% and 65%, respectively, of our revenue in fiscal 2011, and 38% and 62%, respectively, of our revenue in fiscal 2010. Information about our revenue attributable to our geographic regions are set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 11 of the accompanying consolidated financial statements in this Annual Report on Form 10-K.

Market Overview

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

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

- Expanding mobile coverage. Mobile operators around the world are continually being challenged to meet the needs of a growing mobile subscriber base flooded by the tremendous growth of broadband applications and devices. They are installing more cell sites to expand geographic coverage and to fill in spots where user coverage is insufficient.
- Upgrading mobile backhaul. Many mobile operators are modernizing their mobile radio access networks (RANs)

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

- Increasing backhaul capacity: With RAN upgrades, operators are increasing cell site backhaul capacity from a typical 8 Mbps (4 E1/T1) at an edge site to over 40 Mbps. At hubs or aggregation sites, where traffic from multiple edge sites is combined, backhaul capacity may need to be as high as 2 Gbps.
- Deploying small cells backhaul. More and more mobile operators are experiencing a capacity crunch. Outdoor small cells are gaining momentum as one of the best ways to remedy this issue. Industry analysts forecast the main deployment of small cells will start in 2014-2015, and that microwave will be one of the preferred solutions for small cells backhaul to be widely used by mobile operators.
- Meeting government requirements. In some countries, governments require that service providers deploy 4G in underserved, rural areas as a condition of obtaining an LTE spectrum license.
- Using microwave in other vertical markets. In addition to mobile backhaul, we see increasing demand for microwave technology in other vertical markets, such as utility, public safety, financial institution and broadcast, etc.

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

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

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

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

Strategy

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

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

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

Our strategy includes partnering with companies with technical expertise in areas outside of our core competencies to meet our customers' demand for an end-to-end solution. Our partner product strategy enables us to go beyond wireless transmission to combat the vendor consolidation trend whereby customers are “buying more from fewer vendors” and in doing so providing expanding market share opportunity. A comprehensive solutions portfolio comprised of our wireless product and intelligent partner products can allow us to compete with vendors that offer turnkey solution portfolios and serve to focus our R&D efforts on core competency wireless innovations. Having a broader portfolio will enable us to further differentiate our offerings from other independent microwave equipment suppliers.

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

Products and Solutions

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

- Broad product and solution portfolio. We offer a comprehensive suite of wireless transmission networking systems for microwave and millimeter-wave networking applications. Our solution consists of tailored offerings of our own wireless products and our own integrated ancillary equipment or that of other manufacturers and providers of element and network management systems and professional services. These solutions address a wide range of transmission frequencies, ranging from 2.4 MHz to 90 GHz, and a wide range of transmission capacities, ranging up to 4 gigabits per second. The major product families included in these solutions are Eclipse, Aviat WTM 3000, Aviat WTM 6000 and ProVision, our network management software.
- Low total cost of ownership. Our wireless-based solutions offer a relatively low total cost of ownership, including savings on the combined costs of initial acquisition, installation and ongoing operation and maintenance. Our latest generation system designs reduce rack space requirements, require less power, are software-configurable to reduce spare parts requirements, and are simple to install, operate, upgrade and maintain. Our advanced wireless features can also enable operators to save on related costs, including spectrum fees and tower rental fees.
- Futureproof network. Our solutions are designed to protect the network operator’s investment by incorporating software-configurable capacity upgrades and plug-in modules that provide a smooth migration path to emerging technologies, such as carrier Ethernet and IP-based networking, without the need for costly equipment substitutions and additions. Our products include key technologies we believe will be needed by operators for their network evolution to support new broadband services.
- Flexible, easily configurable products. We use flexible architectures with a high level of software configurable features. This design approach produces high-performance products with reusable components while at the same time allowing for a manufacturing strategy with a high degree of flexibility, improved cost and reduced time-to-market. The software features of our products offer our customers a greater degree of flexibility in installing, operating and maintaining their networks.
- Comprehensive network management. We offer a range of flexible network management solutions, from element management to enterprise-wide network management and service assurance that we can optimize to work with our wireless systems.
- Complete professional services. In addition to our product offerings, we provide network planning and design, site surveys and builds, systems integration, installation, maintenance, network monitoring, training, customer service and many other professional services. Our services cover the entire evaluation, purchase, deployment and operational cycle and enable us to be one of the few complete turnkey solution providers in the industry.

Business Operations

Sales and Service

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

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

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

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

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

Manufacturing

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

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

Backlog

Our backlog by geographic region is as follows:

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

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

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

Customers

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

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

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flows and financial position.

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

International Business

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

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

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

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

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

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

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

We use indirect sales channels, including dealers, distributors and sales representatives, in the marketing and sale of some lines of products and equipment internationally. These independent representatives may buy for resale or, in some cases, solicit orders from commercial or governmental customers for direct sales by us. Prices to the ultimate customer in many instances may be recommended or established by the independent representative and may be above or below our list prices. These independent representatives generally receive a discount from our list prices and are free to set the final sales prices paid by the customer.

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

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

Competition

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

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

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

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

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

Research, Development and Engineering

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

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

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

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

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Raw Materials and Supplies

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

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

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

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

Patents and Other Intellectual Property

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

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

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

Environmental and Other Regulations

Our facilities and operations, in common with those of our industry in general, are subject to numerous domestic and international laws and regulations designed to protect the environment, particularly with regard to wastes and emissions. We believe that we have complied with these requirements and that such compliance has not had a material adverse effect on our results of operations, financial condition or cash flows. Based upon currently available information, we do not expect expenditures to protect the environment and to comply with current environmental laws and regulations over the next several years to have a material impact on our competitive or financial position, but can give no assurance that such expenditures will not exceed current expectations. From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, which is commonly known as the Superfund Act and equivalent laws. Such notices may assert potential liability for cleanup costs at various sites, which include sites owned by us, sites we

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

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

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

Employees

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

Executive Officers of the Registrant

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

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

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

Web site Access to Aviat Networks' Reports; Available Information

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

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

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

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Item 1A. Risk Factors

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

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

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

The market for our products is characterized by rapid technological change, evolving industry standards and frequent new product introductions. Our future success will depend, in part, on continuous, timely development and introduction of new products and enhancements that address evolving market requirements and are attractive to customers. If we fail to develop or introduce on a timely basis new products or product enhancements or features that achieve market acceptance, our business may suffer. Another factor impacting our future success is the growth in the customer demand of our new products. Rapidly changing technology, frequent new products introductions and enhancements, short product life cycles and changes in customer requirements characterize the markets for our products. We believe that successful new product introductions provide a significant competitive advantage because of the significant resources committed by customers in adopting new products and their reluctance to change products after these resources have been expended. We have spent, and expect to continue to spend, significant resources on internal research and development to support our effort to develop and introduce new products and enhancements.

As we transition to new product platforms, we may face significant risk that the development of our new products may not be accepted by our current customers. To the extent that we fail to introduce new and innovative products that are adopted by customers, we could fail to obtain an adequate return on these investments and could lose market share to our competitors, which could be difficult or impossible to regain. Similarly we may face decreased revenue, gross margins and profitability due to a rapid decline in sales of current products as customers hold spending to focus purchases on new product platforms. We could incur significant costs in completing the transition, including costs of inventory writedowns of the current product as customers transition to new product platforms. In addition, products or technologies developed by others may render our products noncompetitive or obsolete and result in significant reduction in orders from our customers and the loss of existing and prospective customers.

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

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

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

achieve profitability.
We cannot be certain that these actions or others that we may take in the future will result in operating profitability or net income as determined under U.S. GAAP.
We face strong competition for maintaining and improving our position in the market, which can adversely affect our revenue growth and operating results.

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

In addition, we compete for acquisition and expansion opportunities with many entities that have substantially greater resources than we have. Our competitors may enter into business combinations in order to accelerate product development or to compete more aggressively and we may lack the resources to meet such enhanced competitions.

Our ability to compete successfully will depend on a number of factors, including price, quality, availability, customer service and support, breadth of product line, product performance and features, rapid time-to-market delivery capabilities, reliability, timing of new product introductions by us, our customers and competitors, the ability of our customers to obtain financing and the stability of regional sociopolitical and geopolitical circumstances, and the ability of large competitors to obtain business by providing more seller financing especially for large transactions. We can give no assurances that we will have the financial resources, technical expertise, or marketing, sales, distribution, customer service and support capabilities to compete successfully, or that regional sociopolitical and geographic circumstances will be favorable for our successful operation.

Our average sales prices may decline in the future.

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

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

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

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

In seeking to reduce their expenses, we have also seen significant pressure from our customers to lower prices for our products as they try to improve their operating performance and procure additional capital equipment within their reduced budget levels. To the extent that we lower prices on our products and services, our orders, revenues, and gross margins may be negatively impacted. Additionally, certain emerging markets are particularly sensitive to pricing as a key differentiator. Where price is a primary decision driver, we may not be able to affectively compete or we may chose not to compete due to unacceptable margins.

In addition, the financial crisis may materially adversely affect our suppliers' access to capital and liquidity with which to maintain their inventories, production levels, and/or product quality, could cause them to raise prices or lower production levels, or result in their ceasing operations. Further, with respect to the credit facility discussed under "Liquidity, Capital Resources and Financial Strategies" in Item 7 of this Annual Report on form 10-K, if the global financial crisis adversely affects Silicon Valley Bank, our ability to access the funds available under the credit facility could be materially adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A substantial portion of our sales are to customers in the telecommunications industry. These customers may require their suppliers to provide extended payment terms, direct loans or other forms of financial support as a condition to obtaining commercial contracts. We expect that we may provide or commit to financing where appropriate for our business. Our ability to arrange or provide financing for our customers will depend on a number of factors, including our credit rating, our level of available credit and our ability to sell off commitments on acceptable terms. In addition, if local currencies cannot be hedged, we have an inherent exposure in our ability to convert monies at favorable rates or to U.S. dollars. More generally, we expect to routinely enter into long-term contracts involving significant amounts to be paid by our customers over time. Pursuant to these contracts, we may deliver products and services representing an important portion of the contract price before receiving any significant payment from the customer. As a result of the financing that may be provided to customers and our commercial risk exposure under long-term contracts, our business could be adversely affected if the financial condition of our customers erodes. Over the past few years, certain of our customers have filed with the courts seeking protection under the bankruptcy or

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

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

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

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

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

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

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

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

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

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

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

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

Our quarterly operating results may vary significantly for a variety of reasons, many of which are outside our control. These factors could harm our business and include, among others:

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

Our quarterly results are expected to be difficult to predict and delays in product delivery or closing a sale can cause revenue, margins and net income or loss to fluctuate significantly from anticipated levels. A substantial portion of our contracts are completed in the latter part of a quarter and a significant percentage of these are large orders. Because a significant portion of our cost structure is largely fixed in the short term, revenue shortfalls tend to have a disproportionately negative impact on our profitability and can increase our inventory. The number of large new transactions also increases the risk of fluctuations in our quarterly results because a delay in even a small number of these transactions could cause our quarterly revenues and profitability to fall significantly short of our predictions. In addition, we may increase spending in response to competition or in pursuit of new market opportunities. Accordingly, we cannot provide assurances that we will be able to achieve profitability in the future or that if profitability is attained, that we will be able to sustain profitability, particularly on a quarter-to-quarter basis.

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

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

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

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

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

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

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

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

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

In addition, employees, whether or not directly affected by restructuring, may seek employment with our business partners, customers or competitors. We cannot assure you that the confidential nature of our proprietary information will not be compromised by any such employees who terminate their employment with us. Further, we believe that our future success will depend in large part upon our ability to attract, motivate and retain highly skilled personnel. We may have difficulty attracting and retaining such personnel as a result of a perceived risk of future workforce reductions, and we may terminate the employment of employees as part of a restructuring and later determine that such employees were important to the success of the ongoing business.

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

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

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

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

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

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

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

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

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

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

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governance practices. Finally, if we are unable to ensure compliance with such requirements, laws, or regulations, we may be subject to costly prosecution and liability, and resulting reputational harm, from such noncompliance.

Our products are used in critical communications networks which may subject us to significant liability claims.

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

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

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

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

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

Anti-takeover provisions of Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a third-party acquisition of us difficult.

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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

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

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

Item 3. Legal Proceedings

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

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information and Price Range of Common Stock

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

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

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

Dividend Policy

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

Sales of Unregistered Securities

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

Issuer Repurchases of Equity Securities

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

Performance Graph

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

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Aviat Networks, Inc., the NASDAQ Composite Index
and the NASDAQ Telecommunications Index

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

* Assumes (i) $100 invested on June 29, 2007 in Aviat Networks, Inc. Common Stock, the Total Return Index for The NASDAQ Composite Market (U.S. companies) and the NASDAQ Telecommunications Index; and (ii) immediate reinvestment of all dividends.

Item 6. Selected Financial Data

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

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

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

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

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

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

Overview of Business; Operating Environment and Key Factors Impacting Fiscal 2012 and 2013 Results

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand our results of operations and financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes. In the discussion below, our fiscal year ended June 29, 2012 is referred to as "fiscal 2012" or "2012"; fiscal year ended July 1, 2011 as "fiscal 2011" or "2011" and fiscal year ended July 2, 2010 as “fiscal 2010” or “2010.”

We generate revenue by designing, developing, manufacturing and supporting a range of wireless networking products, solutions and services for mobile and fixed communications service providers, private network operators, government agencies, transportation and utility companies, public safety agencies and broadcast system operators across the globe. Our products include point-to-point (PTP) digital microwave transmission systems designed for first/last mile access, middle mile/backhaul, and long distance trunking applications. We also provide network management software solutions to enable operators to deploy, monitor and manage our systems, third party equipment such as antennas, routers, and multiplexers, necessary to build and deploy a wireless transmission network, and a full suite of turnkey support services.

We work continuously to improve our established brands and to create new products that meet our customers' evolving needs and preferences. Our fundamental business goal is to generate superior returns for our stockholders over the long term. We believe that increases in revenue, operating profits and earnings per share are the key measures of financial performance for our business.

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

Seasonality is a factor that impacts our business. Our fiscal third quarter revenue and orders have historically been lower than the revenue and orders in the immediately preceding second quarter because many of our customers utilize a significant portion of their capital budgets at the end of their fiscal year. The majority of our customers begin a new fiscal year on January 1, and capital expenditures tend to be lower in an organization's first quarter than in its fourth quarter. We anticipate that this seasonality will continue. The seasonality between the second quarter and third quarter may be affected by a variety of factors, including changes in the global economy and other factors. Please refer to the section entitled "Risk Factors" in Item 1A in this Annual Report on Form 10-K.

Operations Review

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

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

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

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

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

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

In the fourth quarter of fiscal 2012, we re-evaluated our reportable segments primarily due to changes in our management, transition of our products to a common product platform across all geographies, streamlining of our business and substantial completion of our restructuring plan in fiscal 2012. The Chief Operating Decision Maker ("CODM"), which is our Chief Executive Officer, manages our business primarily by function globally and reviews financial information on a consolidated basis, accompanied by disaggregated information about revenues by geographic region, for purposes of allocating resources and evaluating financial performance. The profitability of our former geographic segments is not a determining factor in allocating resources and the CODM does not evaluate profitability below the level of the consolidated company. As such we determined that we operate in one single reportable industry segment as of June 29, 2012. Prior years information has been recast to conform with the current reportable segment disclosure.

Revenue

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

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

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

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

North America

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

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

International

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

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

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

Gross Margin

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

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

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

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

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

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

Research and Development Expenses

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

% of revenue	8.1 %	9.0 %	6.7 %

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

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million due to vesting of performance shares upon the achievement of new product development milestones in fiscal 2011. We continue to invest in new product features, new functionality and lower cost platforms that we believe will enable our product lines to retain their technology leads in a cost effective manner.
Our R&D expenses increased $9.4 million in fiscal 2011 compared with fiscal 2010. As a percentage of revenue, R&D expenses also increased to 9.0% in fiscal 2011 from 6.7% in fiscal 2010. The increase in R&D expenses was primarily attributable to investments in new product innovation by increasing R&D headcount in our core business, and an increase in share-based compensation related to the vesting of performance shares upon the achievement of new product development milestones in fiscal 2011.
Selling and Administrative Expenses

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

Our selling and administrative expenses declined $5.1 million, or 4.9%, in fiscal 2012 compared with fiscal 2011. The decrease was due primarily to a $2.6 million reduction in sales and administrative compensation expenses and a $0.4 million decrease in facility expenses as a result of the restructuring programs we implemented over the past two years, a $2.0 million decrease in agent commission expenses driven by lower fee-based revenues, and a decrease of $1.1 million in expenses for information technology projects, partially offset by an increase of $1.3 million in share-based compensation. We will continue to seek ways to improve our operating efficiency in fiscal 2013.
Our selling and administrative expenses declined $30.7 million, or 22.8%, in fiscal 2011 compared with fiscal 2010. The significant decrease in fiscal 2011 was due primarily to reductions in compensation expenses resulting from the restructuring plan implemented in prior years and the sale of NetBoss assets, the absence of sales commissions incurred for a large contract with a customer in fiscal 2010, and absence of expenses related to rebranding and transitional costs incurred in fiscal 2010 due to corporate name change and costs to phase-out transitional services agreement with Harris. The following table summarizes the significant decreases to our selling and administrative expenses comparing fiscal 2011 with fiscal 2010:

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

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

Earlier in fiscal 2009, we commenced a restructuring plan (the "Fiscal 2009 Plan") to reduce our workforce in the U.S., France, Canada and other locations throughout the world and outsource our San Antonio manufacturing operations to a third party in Austin, Texas. The Fiscal 2009 Plan has been completed as of the end of fiscal 2011.

Our restructuring charges by plan for fiscal 2012, 2011 and 2010 are summarized in the table below:

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

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

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

Other Income (Loss), Interest Income and Interest Expense

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

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

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

Income Taxes

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

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

The income tax expense from continuing operations for fiscal year 2011 was $14.1 million. The variation between our income tax expense from continuing operations of $14.1 million and income tax benefit at the statutory rate of 35% on our pre-tax loss of $44.7 million was primarily due to an $11.3 million increase in valuation allowance for Singapore deferred tax assets as of the beginning of fiscal 2011 and a $1.4 million foreign branch withholding tax accrual. The expense was partially offset by a valuation allowance release of $1.6 million on Mexico deferred tax assets as of the beginning of fiscal year 2011.

The income tax benefit from continuing operations for fiscal 2010 was $3.8 million. The variation between our income tax benefit from continuing operations and income tax benefit at the statutory rate of 35% on our pre-tax loss of $112.2 million million was primarily due to a $4.4 million one-time benefit recognized for U.S. federal income tax loss carryback under the Worker, Homeownership and Business Assistance Act of 2009. This benefit was partially offset by a full valuation allowance on all domestic deferred tax assets created in fiscal 2010. The effective tax rate for fiscal 2010 primarily reflected the benefits of earnings and losses of foreign subsidiaries taxed at lower rates and a dividend from a foreign subsidiary.

Loss from Discontinued Operations

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

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

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

Liquidity, Capital Resources and Financial Strategies

Sources of Cash

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

As of June 29, 2012, our principal sources of liquidity consisted of the $96.0 million in cash and cash equivalents, $20.1 million of available credit under our current $40.0 million credit facility with Silicon Valley Bank ("SVB"), and cash collections from customers. We regularly require letters of credit from some customers who request extended payment terms up to one year or more. These letters of credit are generally discounted without recourse shortly after shipment occurs in order to meet immediate liquidity requirements and to reduce our credit and sovereign risk.

Historically our primary sources of liquidity have been cash flows from operations, credit facilities and cash proceeds from sale of our equity securities. During fiscal 2012, our total cash and cash equivalents decreased by $2.2 million primarily due to $5.9 million of cash used on capital expenditures, $1.5 million of cash used related to the disposition of the WiMAX business and $1.4 million repayment on our long-term loan, partially offset by cash provided by operating activities.

Cash provided by operating activities was $8.4 million in fiscal 2012 primarily due to our net loss, adjusted for non-cash items, and a decrease in receivables of $38.4 million, partially offset by a year-to-date decrease in accounts payable and accrued expenses of $24.5 million and an increase in inventory of $7.6 million. Our accounts receivable decreased significantly during fiscal 2012 primarily due to strong cash collections from customers during the period. The decrease in accounts payable was primarily due to timing of payments to our contract manufacturers and suppliers. We also paid $5.1 million in cash during fiscal 2012 for restructuring liabilities. The increase in our inventory was due to an increase in finished goods to meet customer demands for shipments in the first quarter of fiscal 2013. During fiscal year 2013, we expect to spend approximately $10.0 million for capital expenditures. We currently believe that our existing cash and cash equivalents, the available line of credit under the SVB facility and future cash collections from customers will be sufficient to provide for our anticipated requirements for working capital and capital expenditures for the next 12 months and the foreseeable future. There can be no assurance, however, that our business will generate cash flow, or that anticipated operational improvements will be achieved. If we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations, we may be

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required to sell assets, reduce capital expenditures, or obtain financing. If we need to obtain additional financing, we cannot be assured that it will be available on favorable terms, or at all. Our ability to make scheduled principal payments or pay interest on or refinance any future indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the microwave communications market and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

Available Credit Facility, Borrowings and Repayment of Debt

As of June 29, 2012, we had $20.1 million of credit available under our $40.0 million revolving credit facility with SVB. The total amount of revolving credit available