

AVIAT NETWORKS, INC.

Form 10-Q

May 12, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended April 2, 2010

or

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

For the transition period from _____ to _____

**Commission File Number 001-33278
AVIAT NETWORKS, INC.**

(Exact name of registrant as specified in its charter)

Delaware

20-5961564

(State or other jurisdiction of incorporation or organization)

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

**637 Davis Drive
Morrisville, North Carolina**

27560

(Address of principal executive offices)

(Zip Code)

(919) 767-3250

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock as of May 7, 2010 was 59,679,404 shares.

AVIAT NETWORKS, INC. (FORMERLY HARRIS STRATEX NETWORKS, INC.)
FORM 10-Q
For the Quarter Ended April 2, 2010
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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

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

| | Quarter Ended | | Three Quarters Ended | |
|--|------------------------------|--------------------------|------------------------------|--------------------------|
| | April 2, 2010 | April 3, 2009 | April 2, 2010 | April 3, 2009 |
| (In millions, except per common share amounts) | | | | |
| Revenue from product sales and services: | | | | |
| Revenue from product sales | \$ 93.2 | \$ 126.6 | \$ 277.6 | \$ 437.2 |
| Revenue from services | 26.8 | 31.4 | 85.0 | 107.5 |
| Total revenue | 120.0 | 158.0 | 362.6 | 544.7 |
| Cost of product sales and services: | | | | |
| Cost of product sales | (65.4) | (89.0) | (183.1) | (300.6) |
| Cost of services | (17.4) | (20.9) | (58.1) | (82.2) |
| Charges for product transition | (16.9) | (29.8) | (16.9) | (29.8) |
| Amortization of purchased technology | (2.1) | (1.8) | (6.3) | (5.4) |
| Total cost of product sales and services | (101.8) | (141.5) | (264.4) | (418.0) |
| Gross margin | 18.2 | 16.5 | 98.2 | 126.7 |
| Research and development expenses | (10.2) | (9.9) | (31.0) | (29.6) |
| Selling and administrative expenses | (35.0) | (34.6) | (101.2) | (104.0) |
| Total research, development, selling and administrative expenses | (45.2) | (44.5) | (132.2) | (133.6) |
| Amortization of identifiable intangible assets | (1.3) | (1.4) | (4.3) | (4.2) |
| Acquired in-process research and development | | (2.4) | | (2.4) |
| Software impairment charges | | (2.9) | | (2.9) |
| Restructuring charges | (0.7) | (0.5) | (3.3) | (4.9) |
| Goodwill impairment charges | | | | (279.0) |
| Trade name impairment charges | | | | (22.0) |
| Operating loss | (29.0) | (35.2) | (41.6) | (322.3) |
| Interest income | | 0.2 | 0.1 | 0.9 |
| Interest expense | (0.6) | (0.8) | (1.5) | (2.2) |
| Loss before provision for income taxes | (29.6) | (35.8) | (43.0) | (323.6) |
| Benefit from (provision for) income taxes | 3.9 | (3.6) | 1.6 | (28.0) |
| Net loss | \$ (25.7) | \$ (39.4) | \$ (41.4) | \$ (351.6) |

Net loss per common share of common stock (Note 1):

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Basic and diluted | \$ (0.43) | \$ (0.67) | \$ (0.70) | \$ (5.99) |
| Basic and diluted weighted average shares outstanding | 59.7 | 58.8 | 59.3 | 58.7 |

(1) In fiscal 2009, we had Class A and Class B shares of common stock outstanding. The net loss per common share amounts were the same for Class A and Class B in the quarter and three quarters ended April 3, 2009 because the holders of each class were legally entitled to equal per share distributions whether through dividends or in liquidation. There were no shares of Class B common stock outstanding during the quarter and three quarters ended April 2, 2010. Effective November 19, 2009, under a change to our certificate of incorporation approved by shareholders, all shares of our Class A common stock were reclassified on a

one-to-one basis
to shares of
Common Stock
without a class
designation; we
no longer have
Class A or
Class B
common stock
authorized,
issued or
outstanding.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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**AVIAT NETWORKS, INC. (FORMERLY HARRIS STRATEX NETWORKS, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

| (In millions, except share amounts) | April 2, 2010 | July 3, 2009 (1) |
|---|------------------------------|-----------------------------|
| Assets | | |
| <i>Current Assets</i> | | |
| Cash and cash equivalents | \$ 140.5 | \$ 136.8 |
| Short-term investments | | 0.3 |
| Receivables | 115.2 | 142.9 |
| Unbilled costs | 29.3 | 27.8 |
| Inventories | 70.8 | 98.6 |
| Other current assets | 33.8 | 29.7 |
| Total Current Assets | 389.6 | 436.1 |
| <i>Long-Term Assets</i> | | |
| Property, plant and equipment | 52.6 | 57.4 |
| Goodwill | 6.2 | 3.2 |
| Identifiable intangible assets | 74.0 | 84.1 |
| Non-current deferred income taxes | 8.2 | 8.0 |
| Capitalized software and other assets | 10.5 | 11.4 |
| Total Long-Term Assets | 151.5 | 164.1 |
| Total Assets | \$ 541.1 | \$ 600.2 |
| Liabilities and Shareholders Equity | | |
| <i>Current Liabilities</i> | | |
| Short-term debt | \$ 10.0 | \$ 10.0 |
| Accounts payable | 57.1 | 69.6 |
| Compensation and benefits | 13.9 | 16.6 |
| Other accrued items | 49.2 | 55.6 |
| Advance payments and unearned income | 38.4 | 37.3 |
| Restructuring liabilities | 4.5 | 5.3 |
| Total Current Liabilities | 173.1 | 194.4 |
| <i>Long-Term Liabilities</i> | | |
| Restructuring and other long-term liabilities | 1.9 | 4.3 |
| Redeemable preference shares | 8.3 | 8.3 |
| Reserve for uncertain tax positions | 5.5 | 4.4 |
| Deferred income taxes | 0.9 | 0.9 |
| Total Liabilities | 189.7 | 212.3 |
| <i>Commitments and contingencies</i> | | |
| <i>Shareholders Equity</i> | | |
| Preferred stock, \$0.01 par value; 50,000,000 shares authorized; none issued | | |
| Common stock, \$0.01 par value; 300,000,000 shares authorized; issued and outstanding 59,648,099 shares as of April 2, 2010 and 58,903,177 shares as of July 3, 2009 | 0.6 | 0.6 |

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| | | |
|--|----------|----------|
| Additional paid-in-capital | 785.1 | 783.2 |
| Accumulated deficit | (432.5) | (391.1) |
| Accumulated other comprehensive loss | (1.8) | (4.8) |
| Total Shareholders' Equity | 351.4 | 387.9 |
| Total Liabilities and Shareholders' Equity | \$ 541.1 | \$ 600.2 |

(1) Derived from
audited
consolidated
financial
statements.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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AVIAT NETWORKS, INC. (FORMERLY HARRIS STRATEX NETWORKS, INC.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

| | Three Quarters Ended | |
|---|---------------------------------|--------------------------|
| | April 2, 2010 | April 3, 2009 |
| | (In millions) | |
| Operating Activities | | |
| Net loss | \$ (41.4) | \$ (351.6) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Amortization of identifiable intangible assets | 10.6 | 10.0 |
| Depreciation and amortization of property, plant and equipment and capitalized software | 15.8 | 17.6 |
| Non-cash share-based compensation expense | 1.8 | 1.8 |
| Goodwill impairment charges | | 279.0 |
| Trade name impairment charges | | 22.0 |
| Charges for product transition and related impairments, including software | 13.5 | 29.3 |
| Acquired in-process research and development | | 2.4 |
| Decrease in fair value of warrants | | (0.5) |
| Deferred income tax expense | 0.9 | 19.9 |
| Changes in operating assets and liabilities: | | |
| Receivables | 28.1 | 60.7 |
| Unbilled costs and inventories | 18.3 | (15.3) |
| Accounts payable and accrued expenses | (17.1) | (30.0) |
| Advance payments and unearned income | 1.0 | 4.8 |
| Refundable income taxes and income taxes payable | (4.4) | 4.5 |
| Restructuring liabilities and other | (5.3) | (9.3) |
| Net cash provided by operating activities | 21.8 | 45.3 |
| Investing Activities | | |
| Cash paid related to acquisition of Telsima | (4.2) | (4.0) |
| Purchases of short-term investments and available for sale securities | | (1.2) |
| Sales of short-term investments and available for sale securities | 0.3 | 3.7 |
| Additions of property, plant and equipment | (13.7) | (11.2) |
| Additions of capitalized software | (2.1) | (3.1) |
| Net cash used in investing activities | (19.7) | (15.8) |
| Financing Activities | | |
| Proceeds from exercise of stock options | 0.1 | |
| Increase in short-term debt | | 10.0 |
| Payments on long-term debt | | (9.8) |
| Payments on capital lease obligations | (0.4) | (0.8) |
| Net cash used in financing activities | (0.3) | (0.6) |
| Effect of exchange rate changes on cash and cash equivalents | 1.9 | (8.3) |

| | | |
|---|-----------------|----------|
| Net increase in cash and cash equivalents | 3.7 | 20.6 |
| Cash and cash equivalents, beginning of year | 136.8 | 95.0 |
| Cash and cash equivalents, end of quarter | \$ 140.5 | \$ 115.6 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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AVIAT NETWORKS, INC. (FORMERLY HARRIS STRATEX NETWORKS, INC.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
April 2, 2010

Note A Corporate Name Change, Basis of Presentation and Nature of Operations

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

The accompanying condensed consolidated financial statements have been prepared by us, without an audit, in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. In the opinion of management, such interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows for such periods.

The results for the quarter ended April 2, 2010 (the third quarter of fiscal 2010) are not necessarily indicative of the results that may be expected for the full fiscal year or any subsequent period. The balance sheet as of July 3, 2009 has been derived from the audited financial statements but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. We provide complete financial statements in our Annual Report on Form 10-K, which includes information and footnotes required by the rules and regulations of the SEC. The information included in this Quarterly Report on Form 10-Q (this Report) should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 3, 2009 (Fiscal 2009 Form 10-K).

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

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

Revenue from product sales and services, other than from long-term contracts (which are discussed below), generally is recognized when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss has transferred or services have been rendered, the fee is fixed or determinable and collectibility is reasonably assured. We often enter into multiple contractual agreements with the same customer. Such agreements are reviewed to determine whether they should be evaluated as one arrangement. As has been applied consistently in the preparation of our financial statements, we utilize a methodology whereby if an arrangement requires the delivery or performance of multiple deliverables or elements, we determine whether the individual deliverables represent separate units of accounting. We recognize the revenue associated with each unit of accounting separately. If sufficient evidence of fair value can be established for all the elements of an arrangement, we allocate revenue to each element in the arrangement based on the relative fair value of each element and recognize that allocated revenue when each element meets the criteria discussed above. However, we generally do not have sufficient evidence of fair value for all elements of our arrangements, but we generally do have sufficient evidence of the fair value of the undelivered elements in our arrangements. In these cases, we allocate revenue using the residual method in which we defer the fair value of the undelivered elements and allocate the remaining arrangement consideration to the delivered elements. If

an arrangement involves the delivery of multiple items of the same elements that are only partially delivered at the end of a reporting period, we allocate revenue proportionately between the delivered and undelivered items.

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Revenues related to long-term contracts for customized network solutions are recognized using the percentage-of-completion method. In using the percentage-of-completion method, we generally apply the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. Contracts are combined when specific aggregation criteria are met including when the contracts are in substance an arrangement to perform a single project with a customer; the contracts are negotiated as a package in the same economic environment with an overall profit objective; the contracts require interrelated activities with common costs that cannot be separately identified with, or reasonably allocated to the elements, phases or units of output and the contracts are performed concurrently or in a continuous sequence under the same project management at the same location or at different locations in the same general vicinity. Recognition of profit on long-term contracts requires estimates of the total contract value, the total cost at completion and the measurement of progress towards completion. Significant judgment is required when estimating total contract costs and progress to completion on the arrangements as well as whether a loss is expected to be incurred on the contract. Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts or programs in progress are charged to earnings when identified.

For revenue recognition from the sale of software or products which have software which is more than incidental to the product as a whole, the entire fee from the arrangement is allocated to each of the elements based on the individual element's fair value, which must be based on vendor specific objective evidence of the fair value (VSOE). If VSOE cannot be established for the undelivered elements of an arrangement, we defer revenue until the earlier of delivery, or fair value of the undelivered element exists, unless the undelivered element is a service, in which the entire arrangement fee is recognized ratably over the period during which the services are expected to be performed.

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

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

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

Out of Period Adjustments During the closing of our fiscal year 2009 accounts, we determined the need for an out-of-period adjustment related to the calculation of our currency translation expense that affected our previously reported Cost of product sales in each of the first three quarters of fiscal 2009. As disclosed in Note T of the Fiscal 2009 Form 10-K, our previously filed quarterly reports on Form 10-Q during 2009 required an adjustment for cumulative currency translation expense, which we concluded did not have a material impact on the previously filed quarterly reports on Form 10-Q during fiscal 2009. We have corrected the amount of cumulative currency translation expense for comparable prior periods in fiscal 2009 included in this Quarterly Report on Form 10-Q. The impact of this translation adjustment increased Cost of product sales by \$1.1 million, increased net loss per common share by \$0.02 in the third quarter of fiscal 2009, increased Cost of product sales by \$3.5 million and increased net loss per common share by \$0.06 in the first three quarters of fiscal 2009.

During the closing of our books for the first quarter of fiscal 2010, we determined the need for an out-of-period adjustment in the classification of revenue on our Condensed Consolidated Statement of Operations between the line items of Revenue from services and Revenue from product sales and in the classification of cost of sales between Cost of services and Cost of product sales. This reclassification had no impact on gross margin. For the third quarter of fiscal 2009, the impact of this reclassification decreased Revenue from services by \$0.7 million, increased Revenue from product sales by \$0.7 million, decreased Cost of services by \$0.5 million and increased Cost of product sales by \$0.5 million. For the first three quarters of fiscal 2009, the impact of this reclassification decreased Revenue from

services by \$3.9 million, increased Revenue from product sales by \$3.9 million, decreased Cost of services by \$2.0 million and increased Cost of product sales by \$2.0 million. We are correcting our fiscal 2009 reported amounts as we file our fiscal 2010 periodic reports.

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Reclassification Prior to May 27, 2009, Harris owned approximately 56% of our outstanding common stock. As such, Harris was our majority stockholder and a related party for financial reporting purposes. Effective May 27, 2009, Harris distributed its entire ownership of our common stock to its shareholders. Accordingly, effective with the first quarter of fiscal 2010, Harris ceased to be considered a related party for financial reporting purposes. We have reclassified all amounts previously disclosed as related party transactions with Harris on our Statements of Operations, Balance Sheets and Statements of Cash Flows to the appropriate line items in the current presentation.

For the third quarter and first three quarters of fiscal 2009, and as of April 3, 2009, these reclassifications from the previously disclosed line item to the current presentation included:

Condensed Consolidated Statement of Operations (third quarter and first three quarters of fiscal 2009):

Revenue from product sales with Harris to Revenue from product sales (\$0.8 million and \$2.7 million); Cost of product sales with Harris to Cost of product sales (\$0.7 million and \$2.6 million); Cost of sales billed from Harris to Cost of product sales (\$0.4 million and \$0.7 million); Selling and administrative expenses with Harris to Selling and administrative expenses (\$1.2 million and \$4.5 million)

Condensed Consolidated Balance Sheet as of April 3, 2009:

Current portion of long-term capital lease obligation to Harris of \$0.8 million to Other accrued items; Due from Harris Corporation of \$3.8 million to Other current assets; Long-term portion of capital lease obligation to Harris of \$1.0 million to Restructuring and other long-term liabilities

Condensed Consolidated Statement of Cash Flows (first three quarters of fiscal 2009):

Changes in operating assets and liabilities, Due to Harris of \$20.7 million to changes in Restructuring liabilities and other.

Nature of Operations We design, manufacture and sell a range of wireless networking products, solutions and services to mobile and fixed telephone service providers, private network operators, government agencies, transportation and utility companies, public safety agencies and broadcast system operators across the globe. Our products include broadband wireless access base stations and customer premises equipment based upon the IEEE 802.16d-2004 and 16e-2005 standards for fixed and mobile WiMAX, point-to-point digital microwave radio systems for access, backhaul, trunking and license-exempt applications, supporting new network deployments, network expansion, and capacity upgrades.

Note B Accounting Changes and Recent Accounting Pronouncements***Initial Application of Accounting Standards***

In the first quarter of fiscal 2010, we adopted the following accounting standards, none of which had a material impact on our financial position, results of operations or cash flows:

The Financial Accounting Standards Board (FASB) Accounting Standards Codification(tm) (Codification), which is now the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied for financial statements issued for periods ending after September 2009. Additionally, we are using the new guidelines prescribed by the Codification when referring to GAAP, including the elimination of pre-Codification GAAP references unless accompanied by Codification GAAP references.

The accounting standard deferring the effective date of the fair value measurement standard for disclosures related to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. See *Note M Fair Value Measurements of Financial Assets and Financial Liabilities* in these Notes to Condensed Consolidated Financial Statements for fair value disclosures required by this standard.

The accounting standard requiring interim disclosures about fair value of financial instruments, which extends the annual disclosure requirements about fair value of financial instruments to interim reporting periods. See *Note M Fair Value Measurements of Financial Assets and Financial Liabilities* in these Notes to Condensed Consolidated Financial Statements for fair value disclosures required by this standard.

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The accounting standard for determining whether instruments granted in share-based payment transactions are participating securities. There was no material change to our calculations of basic and diluted weighted average shares outstanding for prior periods.

The accounting standards for accounting for business combinations, which significantly change the accounting and reporting requirements related to business combinations, including the recognition of acquisition-related transaction and post-acquisition restructuring costs in our results of operations as incurred. While the adoption of these standards did not have a material impact on our financial position, results of operations or cash flows directly in the first quarter of fiscal 2010, it is expected to have a significant effect on the accounting for any future acquisitions we make.

Accounting Standards Issued But Not Yet Effective

In October 2009, the FASB issued two new accounting standards updates that:

Revise accounting and reporting requirements for arrangements with multiple deliverables. This update allows the use of an estimated selling price to determine the selling price of a deliverable in cases where neither vendor-specific objective evidence nor third-party evidence is available, which is expected to increase the ability for entities to separate deliverables in multiple-deliverable arrangements and, accordingly, to decrease the amount of revenue deferred in these cases. Additionally, this update requires the total selling price of a multiple-deliverable arrangement to be allocated at the inception of the arrangement to all deliverables based on relative selling prices.

Clarify which revenue allocation and measurement guidance should be used for arrangements that contain both tangible products and software, in cases where the software is more than incidental to the tangible product as a whole. More specifically, if the software sold with or embedded within the tangible product is essential to the functionality of the tangible product, then this software, as well as undelivered related software elements are excluded from the scope of existing software revenue guidance, which is expected to decrease the amount of revenue deferred in these cases.

These two new accounting standards updates can be applied prospectively or retrospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which for us is our fiscal 2011, and must be adopted at the same time. Early adoption is permitted, and if these updates are adopted early in other than the first quarter of our fiscal year, then they must be applied retrospectively to the beginning of that fiscal year. We are currently evaluating the impact the adoption of these updates will have on our financial position, results of operations and cash flows.

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The changes in components of our accumulated other comprehensive loss during the three quarters ended April 2, 2010 and April 3, 2009 were as follows:

| | Foreign Currency Translation | Hedging Derivatives | Short-Term Investments | Total Accumulated Other Comprehensive Income (Loss) |
|---|---|--------------------------------|-----------------------------------|--|
| | (In millions) | | | |
| Balance as of July 3, 2009 | \$ (4.4) | \$ (0.4) | \$ | \$ (4.8) |
| Foreign currency translation gain | 2.6 | | | 2.6 |
| Net unrealized gain on hedging activities | | 0.4 | | 0.4 |
| Balance as of April 2, 2010 | \$ (1.8) | \$ | \$ | \$ (1.8) |
| Balance as of June 27, 2008 | \$ 4.1 | \$ (0.3) | \$ | \$ 3.8 |
| Foreign currency translation loss | (16.3) | | | (16.3) |
| Net unrealized gain on hedging activities | | 0.7 | | 0.7 |
| Balance as of April 3, 2009 | \$ (12.2) | \$ 0.4 | \$ | \$ (11.8) |

Total comprehensive loss for the quarter and three quarters ended April 2, 2010 and April 3, 2009 was comprised of the following:

| | Quarter Ended April 2, 2010 | Quarter Ended April 3, 2009 | Three Quarters Ended April 2, 2010 | Three Quarters Ended April 3, 2009 |
|--|--|--|---|---|
| | (In millions) | | | |
| Net loss | \$ (25.7) | \$ (39.4) | \$ (41.4) | \$ (351.6) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation income (loss) | 0.6 | (0.4) | 2.6 | (16.3) |
| Net unrealized gain (loss) on hedging activities | 0.3 | (0.1) | 0.4 | 0.7 |
| Total comprehensive loss | \$ (24.8) | \$ (39.9) | \$ (38.4) | \$ (367.2) |

Note D Receivables

Our receivables are summarized below:

| | April 2, 2010 | July 3, 2009 |
|--|------------------------------|---------------------|
| | (In millions) | |
| Accounts receivable | \$ 127.7 | \$ 163.1 |
| Notes receivable due within one year net | 7.1 | 6.8 |

| | | |
|---------------------------------------|-----------------|----------|
| | 134.8 | 169.9 |
| Less allowances for collection losses | (19.6) | (27.0) |
| | \$ 115.2 | \$ 142.9 |

To comply with requests from our customers for payment terms, we often accept letters of credit with payment terms of up to one year or more, which we then discount with various financial institutions. Under these arrangements, collection risk is fully transferred to the financial institutions. We record the cost of discounting these letters of credit as interest expense. During the third quarter of fiscal 2010 and 2009 we discounted customer letters of credit totaling \$45.6 million and \$37.0 million and recorded related interest expense of \$0.2 million and \$0.2 million. During the first three quarters of fiscal 2010 and 2009 we discounted customer letters of credit totaling \$87.1 million and \$66.4 million and recorded related interest expense of \$0.6 million and \$0.4 million.

Table of Contents**Note E Inventories**

Our inventories are summarized below:

| | April 2, 2010 | July 3, 2009 |
|----------------------------|---------------------|--------------|
| | (In millions) | |
| Finished products | \$ 72.5 | \$ 69.9 |
| Work in process | 6.0 | 13.6 |
| Raw materials and supplies | 45.1 | 65.0 |
| | 123.6 | 148.5 |
| Inventory reserves | (52.8) | (49.9) |
| | \$ 70.8 | \$ 98.6 |

During the first three quarters of fiscal 2010, we increased our net inventory reserves by \$2.9 million primarily due to the convergence of our multiple distinct microwave products onto a single product platform. In connection with this convergence, during the third quarter of fiscal 2010, the increase in the inventory reserves included \$7.9 million of provisions for legacy product excess and obsolete inventory related to discontinuing the final portion of our internal manufacturing and the associated outsourcing of those products to a US-based manufacturer.

Note F Property, Plant and Equipment

Our property, plant and equipment are summarized below:

| | April 2, 2010 | July 3, 2009 |
|---|---------------------|--------------|
| | (In millions) | |
| Land | \$ 1.2 | \$ 1.2 |
| Buildings | 15.6 | 21.5 |
| Software developed for internal use | 11.2 | 11.6 |
| Machinery and equipment | 99.1 | 94.8 |
| | 127.1 | 129.1 |
| Less allowances for depreciation and amortization | (74.5) | (71.7) |
| | \$ 52.6 | \$ 57.4 |

Depreciation and amortization expense related to plant and equipment, including software amortization, was \$4.3 million and \$5.0 million during the quarters ended April 2, 2010 and April 3, 2009, and \$13.7 million and \$14.8 million in the three quarters ended April 2, 2010 and April 3, 2009.

During the quarter ended April 2, 2010, we recorded an impairment charge of \$5.5 million on our manufacturing facility and idle equipment in San Antonio, Texas. This charge resulted from our plan to converge our products onto a single platform by the end of fiscal year 2010 and is included in Charges for product transition within Cost of products sales and services on our Condensed Consolidated Statement of Operations.

Note G Credit Facility and Debt

Our debt consisted of short-term debt of \$10.0 million as of April 2, 2010 and July 3, 2009.

Our credit facility provides for an initial committed amount of \$70 million with an uncommitted option for an additional \$50 million available with the same or additional banks. The initial term of our credit facility is three years

expiring June 30, 2011 and provides for (1) demand borrowings (with no stated maturity date) with an interest rate of the greater of Bank of America's prime rate or the Federal Funds rate plus 0.5%, (2) fixed term Eurodollar loans for up to six months or more as agreed with the banks with an interest rate of LIBOR plus a spread of between 1.25% to 2.00% based on our current leverage ratio, and (3) the issuance of standby or commercial letters of credit. The credit facility contains a minimum liquidity ratio covenant and a maximum leverage ratio covenant and is unsecured. As of April 2, 2010, we were in compliance with these financial covenants.

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The credit facility allows for borrowings of up to \$70 million with available credit defined as \$70 million less the outstanding balance of short-term borrowings (\$10.0 million as of April 2, 2010) and letters of credit (\$8.6 million as of April 2, 2010). Therefore, available credit as of April 2, 2010 was \$51.4 million. The weighted average interest rate on our short-term borrowings was 1.96% as of April 2, 2010.

As of April 2, 2010, the amount under standby letters of credit outstanding totaled \$1.6 million under a previous credit facility in effect as of the end of fiscal year 2008.

Note H Accrued Warranties

Changes in our warranty liability, which is included as a component of Other accrued items on the Condensed Consolidated Balance Sheets, during the three quarters ended April 2, 2010 and April 3, 2009 are as follows:

| | Three Quarters Ended | |
|---|-----------------------------|--------------------------|
| | April 2, 2010 | April 3, 2009 |
| | (In millions) | |
| Balance as of the beginning of the fiscal year | \$ 5.5 | \$ 6.9 |
| Warranty provision for revenue recorded | 1.3 | 4.8 |
| Settlements made | (2.4) | (4.3) |
| Other adjustments, including foreign currency translation | | 0.2 |
| Balance as of the end of the period | \$ 4.4 | \$ 7.6 |

Note I Restructuring Activities

During the third quarter of fiscal 2010, we continued executing restructuring activities that commenced during fiscal 2009 (the Fiscal 2009 Plan) to reduce our workforce in the U.S., France, Canada and other locations throughout the world. During the third quarter of fiscal 2010, our restructuring charges totaled \$0.7 million consisting of:

Severance, retention and related charges totaling \$0.5 million for reduction in force activities.

Charges totaling \$0.1 million for relocation of U.S. employees to North Carolina from Florida.

Charges totaling \$0.1 million for adjustments to facilities lease obligations.

During the first three quarters of fiscal 2010, our restructuring charges totaled \$3.3 million consisting of:

Severance, retention and related charges totaling \$2.4 million associated with reduction in force activities.

Charges totaling \$0.4 million related to the relocation of U.S. employees to North Carolina from Florida.

Charges totaling \$0.5 million for adjustments to facilities lease obligations.

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The information in the following table summarizes our restructuring activity during the three quarters ended April 2, 2010 and the remaining restructuring liability as of April 2, 2010.

| | Severance and Benefits | Facilities and Other (In millions) | Total |
|--|---------------------------------------|---|--------------|
| Restructuring liability as of July 3, 2009 | \$ 2.5 | \$ 5.3 | \$ 7.8 |
| Provision in the first three quarters of fiscal 2010 | 2.4 | 0.9 | 3.3 |
| Cash payments in the first three quarters of fiscal 2010 | (3.2) | (2.7) | (5.9) |
| Restructuring liability as of April 2, 2010 | \$ 1.7 | \$ 3.5 | \$ 5.2 |
| Current portion of restructuring liability as of April 2, 2010 | \$ 1.7 | \$ 2.8 | 4.5 |
| Long-term portion of restructuring liability as of April 2, 2010 | | 0.7 | 0.7 |
| Total restructuring liability as of April 2, 2010 | \$ 1.7 | \$ 3.5 | \$ 5.2 |

The following table summarizes our costs incurred through April 2, 2010 and costs expected to be incurred for our Fiscal 2009 Plan:

| | Total Costs Incurred During the Three Quarters Ended April 2, 2010 | Cumulative Costs Incurred through April 2, 2010 | | Estimated Additional Costs to be Incurred | Total Restructuring Costs Expected to be Incurred |
|------------------------|---|--|--------|--|--|
| | | | | | |
| (In millions) | | | | | |
| North America: | | | | | |
| Severance and benefits | \$ 0.8 | \$ 5.7 | \$ 1.5 | \$ 7.2 | |
| Facilities and other | 0.6 | 1.3 | 0.3 | 1.6 | |
| Total North America | \$ 1.4 | \$ 7.0 | \$ 1.8 | \$ 8.8 | |
| International: | | | | | |
| Severance and benefits | \$ 1.7 | \$ 4.8 | \$ 0.2 | \$ 5.0 | |
| Facilities and other | 0.2 | 0.2 | 0.8 | 1.0 | |
| Total International | \$ 1.9 | \$ 5.0 | \$ 1.0 | \$ 6.0 | |
| Totals | \$ 3.3 | \$ 12.0 | \$ 2.8 | \$ 14.8 | |

To converge our products onto a single platform by the end of fiscal year 2010 and complete the outsourcing of our manufacturing activities, we expect to incur \$2.8 million in restructuring charges with the majority of such charges occurring in the North America segment. Specifically, we expect to incur \$1.8 million of costs to outsource our manufacturing operations in San Antonio and certain international locations with an additional \$1.0 million to be used for related severance payments at various locations worldwide.

Note J Share-Based Compensation

Compensation expense for share-based awards was \$0.3 million and \$0.4 million for the quarters ended April 2, 2010 and April 3, 2009 and \$1.9 million for both the three quarters ended April 2, 2010 and April 3, 2009. Amounts were included in our consolidated statements of operations as follows:

| | Quarter Ended | | Three Quarters Ended | |
|-------------------------------------|----------------------|--------------|-----------------------------|-----------------|
| | April | April | April 2, | April 3, |
| | 2, | 3, | 2010 | 2009 |
| | 2010 | 2009 | (In millions) | |
| Cost of product sales and services | \$ | \$ (0.1) | \$ 0.1 | \$ 0.2 |
| Research and development expenses | 0.1 | 0.1 | 0.4 | 0.4 |
| Selling and administrative expenses | 0.2 | 0.4 | 1.4 | 1.3 |
| Total compensation expense | \$ 0.3 | \$ 0.4 | \$ 1.9 | \$ 1.9 |

During the third quarter and second quarter of fiscal 2010, we determined that the three-year performance period minimum threshold targets would not be achieved for performance share awards made under our fiscal year 2009 Long-Term Incentive Plan.

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The three-year performance period for these awards ends on July 1, 2011. During the second quarter of fiscal 2010, we estimated that 60% of these awards will not vest and will be forfeited as of July 1, 2011. During the third quarter of fiscal 2010, we estimated that 40% of these awards will not vest and will be forfeited as of July 1, 2011.

Accordingly, we recorded a credit to compensation expense of \$0.5 million during the third quarter of fiscal 2010 and \$0.6 million during the second quarter of fiscal 2010 related to these awards. The final determination of the number of performance shares, if any, vesting in connection with an award will be determined by our Board of Directors, or a committee of our Board.

During the third quarter of fiscal 2010, we granted options to purchase 842,655 shares of our Common Stock, 14,376 shares of restricted stock and 14,376 performance share awards to employees under our 2007 Stock Equity Plan. The fair value of each option grant was estimated on the date of grant using the Black-Scholes-Merton option-pricing model using the following weighted average assumptions: expected volatility of 67 percent; expected term of 4.4 years; and expected dividend yield of zero percent.

During the three quarters ended April 2, 2010, we granted options to purchase 1,605,130 shares of our Common Stock, 387,562 shares of restricted stock and 394,305 performance share awards to employees under our 2007 Stock Equity Plan. The fair value of each option grant was estimated on the date of grant using the Black-Scholes-Merton option-pricing model using the following weighted average assumptions: expected volatility of 64 percent; expected term of 4.4 years; and expected dividend yield of zero percent.

We issued 14,898 shares and 15,115 shares upon the exercise of stock options during the third quarter of fiscal 2010 and the first three quarters of fiscal 2010. We issued 688 shares upon the exercise of stock options during the first three quarters of fiscal 2009.

Note K Business Segments

Through the end of fiscal year 2009, we reported three operating segments in our public filings: North America Microwave, International Microwave and Network Operations. During the first quarter of fiscal 2010, we realigned the management structure of our Network Operations segment to geographically integrate with our North America Microwave and International Microwave segments to gain cost efficiencies. As a result, we eliminated the Network Operations segment as a separate reporting unit and consolidated this segment into our remaining two segments that are based on the geographical location where revenue is recognized. Additionally, we have dropped the word

Microwave from the name of our North America and International segments. Segment information for the third quarter and first three quarters of fiscal 2009 have been adjusted to reflect this change.

During the third quarter and first three quarters of fiscal 2010, MTN group in Africa (MTN) accounted for 27% and 15% of our total revenue. During the third quarter and first three quarters of fiscal 2009, MTN accounted for 29% and 17% of our total revenue. We have entered into separate and distinct contracts with MTN, as well as separate arrangements with MTN group subsidiaries. None of such contracts on an individual basis are material to our operations. However, the loss of all MTN group business could adversely affect our results of operations, cash flows and financial position.

Revenue and loss before income taxes by segment are as follows:

| | Quarter Ended | | Three Quarters Ended | |
|----------------|---------------------|---------------------|----------------------|------------------|
| | April 2, 2010 | April 3, 2009 | April 2, 2010 | April 3, 2009 |
| | (In millions) | | | |
| Revenue | | | | |
| North America | \$ 39.6 | \$ 43.0 | \$ 137.0 | \$ 172.6 |
| International | 80.4 | 115.0 | 225.6 | 372.1 |
| Total Revenue | \$ 120.0 | \$ 158.0 | \$ 362.6 | \$ 544.7 |

Loss Before Income Taxes

Segment Operating (Loss) Income:

| | | | | |
|--|-----------|-----------|-----------|------------|
| North America (1) | \$ (22.6) | \$ (28.8) | \$ (35.4) | \$ (59.2) |
| International (2) | (6.4) | (6.4) | (6.2) | (263.1) |
| Net interest expense | (0.6) | (0.6) | (1.4) | (1.3) |
| | | | | |
| Loss before provision for income taxes | \$ (29.6) | \$ (35.8) | \$ (43.0) | \$ (323.6) |

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- (1) The following table summarizes certain charges and expenses included in the North America segment operating results during the third quarter and first three quarters of fiscal 2010 and 2009:

| | Quarter Ended | | Three Quarters Ended | |
|--|---------------|---------------|----------------------|---------------|
| | April 2, 2010 | April 3, 2009 | April 2, 2010 | April 3, 2009 |
| | (In millions) | | | |
| Goodwill impairment charges | \$ | \$ | \$ | \$ 31.8 |
| Impairment charges for the trade name Stratex | | | | 0.7 |
| Charges for product transition | 16.9 | 25.3 | 16.9 | 25.3 |
| Software impairment charges | | 2.9 | | 2.9 |
| Amortization of developed technology, trade names and customer relationships | 3.1 | 0.4 | 7.1 | 1.3 |
| Rebranding and transitional costs | 0.7 | | 2.2 | |
| Restructuring charges | 0.5 | 0.4 | 2.0 | 4.0 |
| Amortization of the fair value adjustments related to fixed assets | 0.2 | 0.1 | 0.5 | 0.5 |
| Severance costs to move certain executive positions to California office | 0.6 | | 0.6 | |
| Share-based compensation expense | 0.3 | 0.5 | 1.7 | 1.6 |
| | \$ 22.3 | \$ 29.6 | \$ 31.0 | \$ 68.1 |

- (2) The following table summarizes certain charges and expenses included in the International segment operating results during the third quarter and first

three quarters of
fiscal 2010 and
2009:

| | Quarter Ended | | Three Quarters Ended | |
|---|---------------------|---------------------|----------------------|------------------|
| | April 2, 2010 | April 3, 2009 | April 2, 2010 | April 3, 2009 |
| | (In millions) | | | |
| Goodwill impairment charges | \$ | \$ | \$ | \$ 247.2 |
| Impairment charges for the trade name Stratex | | | | 21.3 |
| Charges for product transition | | 4.5 | | 4.5 |
| Acquired in-process research and development | | 2.4 | | 2.4 |
| Restructuring charges | 0.2 | 0.2 | 1.3 | 0.9 |
| Amortization of developed technology, trade names and customer relationships | 0.3 | 2.8 | 3.5 | 8.2 |
| Rebranding and transitional costs | 0.1 | | 0.2 | |
| Amortization of the fair value adjustments related to fixed assets | | 0.1 | 0.1 | 1.0 |
| Share-based compensation expense | | | 0.2 | 0.4 |
| | \$ 0.6 | \$ 10.0 | \$ 5.3 | \$ 285.9 |

Note L Income Taxes

Our benefit from income taxes for the third quarter and first three quarters of fiscal 2010 of \$3.9 million and \$1.6 million primarily results from a \$4.4 million one-time benefit recognized during the third quarter for U.S. loss carry back under the Worker, Homeownership, and Business Assistance Act of 2009. This third quarter benefit was partially offset by income tax expense related to our profitable foreign jurisdictions based on our estimated annual effective tax rate adjusted for losses in separate jurisdictions for which no tax benefit can be recognized. Our effective tax rate varies from the U.S. federal statutory rate of 35% due to results of foreign operations that are subject to income taxes at lower statutory rates and certain jurisdictions where we cannot recognize tax benefits on current losses.

As of July 3, 2009, we had a liability for unrecognized tax benefits of \$30.9 million for various federal, foreign, and state income tax matters. During the first three quarters of fiscal 2010, the liability for unrecognized tax benefits increased by \$1.1 million. The total liability for unrecognized tax benefits as of April 2, 2010 was \$32.0 million. If the unrecognized tax benefits associated with these positions are ultimately recognized, they would not be expected to have a material impact on our effective tax rate or financial position.

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Interest and penalties related to unrecognized tax benefits are accounted for as part of the provision for federal, foreign, and state income taxes. We accrued no additional amount for such interest during the first three quarters of fiscal 2010 and less than \$0.1 million in 2009. No penalties have been accrued on any of the unrecognized tax benefits.

We expect that the amount of unrecognized tax benefits may change in the next year; however, it is not expected to have a significant impact on our results of operations, financial position or cash flows.

On November 6, 2009, the U.S. President signed into law the Worker, Homeownership, and Business Assistance Act of 2009 (the Act). The Act amended Section 172 of the Internal Revenue Code to allow net operating losses realized in either tax year 2008 or 2009 to be carried back up to five years (previously limited to a two year carryback). We applied for a \$4.4 million refund with the U.S. Internal Revenue Service in the third quarter of fiscal 2010 and subsequently received this refund in April 2010.

Our major tax jurisdictions include the U.S., Singapore, Poland, Nigeria, France and the U.K. The earliest years still open and subject to audits for these jurisdictions are as follows: United States 2003; Singapore 2006; Poland 2004; Nigeria 2004; France 2006; and U.K. 2006. As of April 2, 2010, we were not under audit by any major tax jurisdiction, including the U.S. Internal Revenue Service.

Note M Fair Value Measurements of Financial Assets and Financial Liabilities

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

Level 1 Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2 Observable market-based inputs or observable inputs that are corroborated by market data;

Level 3 Unobservable inputs reflecting our own assumptions.

The following table represents the fair value hierarchy of our financial assets and liabilities measured at fair value on a recurring basis (at least annually) as of April 2, 2010:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|---------------|---------|---------|---------|
| | (In millions) | | | |
| Financial Assets: | | | | |
| Cash equivalents | \$ 24.0 | \$ | \$ | \$ 24.0 |
| Foreign exchange forward contracts | \$ | \$ 0.5 | \$ | \$ 0.5 |
| Financial Liabilities: | | | | |
| Foreign exchange forward contracts | \$ | \$ 0.1 | \$ | \$ 0.1 |

Our cash equivalents consist primarily of shares in prime money market funds purchased from two major financial institutions. As of April 2, 2010, these money market shares were valued at \$1.00 net asset value per share by these financial institutions.

Note N Risk Management, Derivative Financial Instruments and Hedging Activities

We are exposed to global market risks, including the effect of changes in foreign currency exchange rates, and use derivatives to manage financial exposures that occur in the normal course of business. We do not hold nor issue derivatives for trading purposes or make speculative investments in foreign currencies.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives to either specific firm commitments or forecasted transactions. We also enter into foreign exchange forward contracts to mitigate the change in fair value of specific assets and liabilities on the balance sheet; these are

not designated as hedging instruments. Accordingly, changes in the fair value of hedges of recorded balance sheet positions are recognized immediately in cost of external product sales on the consolidated statements of operations together with the transaction gain or loss from the hedged balance sheet position.

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Substantially all derivatives outstanding as of April 2, 2010 are designated as cash flow hedges or non-designated hedges of recorded balance sheet positions. All derivatives are recognized on the balance sheet at their fair value. The total notional amount of outstanding derivatives as of April 2, 2010 was \$76.6 million, of which \$11.2 million were designated as cash flow hedges and \$65.4 million were not designated as cash flow hedging instruments.

A 10% adverse change in currency exchange rates for our foreign currency derivatives held as of April 2, 2010 would have an impact of approximately \$2.9 million on the fair value of such instruments. This quantification of exposure to the market risk associated with foreign exchange financial instruments does not take into account the offsetting impact of changes in the fair value of our foreign denominated assets, liabilities and firm commitments.

As of April 2, 2010, we had 47 foreign currency forward contracts outstanding with a total net notional amount of \$21.5 million consisting of 12 different currencies, primarily the Euro, Philippine peso, Polish zloty, Singapore dollar and Republic of South Africa rand.

Following is a summary by currency of the contract net notional amounts grouped by the underlying foreign currency as of April 2, 2010:

| | Contract Amount (Local Currency) | Contract Amount (USD) |
|--|---|--------------------------------------|
| | (In millions) | |
| Euro (EUR) net contracts to receive (pay) USD | (EUR) 3.0 | \$ 4.5 |
| Philippine peso (PHP) net contracts to receive (pay) USD | (PHP) (113.4) | \$ (2.5) |
| Polish zloty (PLN) net contracts to receive (pay) USD | (PLN) 30.3 | \$ 10.4 |
| Singapore dollar (SGD) net contracts to receive (pay) USD | (SGD) 3.4 | \$ 2.4 |
| Republic of South Africa rand (ZAR) net contracts to receive (pay) USD | (ZAR) 38.2 | \$ 5.1 |
| All other currencies net contracts to receive (pay) USD | | \$ 1.6 |
| Total of all currencies | | \$ 21.5 |

The following table presents the fair value of derivative instruments included within our Consolidated Balance Sheet as of April 2, 2010.

| | Asset Derivatives Balance Sheet | | Liability Derivatives Balance Sheet | |
|--|--|-----------------------|--|-------------------|
| | Location | Fair Value | Location | Fair Value |
| | | | (In millions) | |
| Derivatives designated as hedging instruments: | | | | |
| | Other current assets | \$ 0.5 | Other current liabilities | \$ |
| Derivatives not designated as hedging instruments: | | | | |
| | Other current assets | | Other current liabilities | 0.1 |
| Foreign exchange forward contracts | | | | |
| Total derivatives | | \$ 0.5 | | \$ 0.1 |

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The following table presents the amounts of gains (losses) from cash flow hedges recorded in Other Comprehensive (Loss) Income, the amounts transferred from Other Comprehensive (Loss) Income and recorded in Revenue and Cost of Products Sold, and the amounts associated with excluded time value and hedge ineffectiveness during the third quarter and first three quarters of fiscal 2010 (in millions):

| | Third Quarter Ended April 2, 2010 | Three Quarters Ended April 2, 2010 |
|--|--|---|
| Locations of Gains (Losses) Recorded From Derivatives Designated as Cash Flow Hedges | | |
| Amount of gain (loss) of effective hedges recognized in Other Comprehensive Income | \$ 0.2 | \$ |
| Amount of gain (loss) of effective hedges reclassified from Other Comprehensive Income into: | | |
| Revenue | \$ | \$ 0.2 |
| Cost of Products Sold | \$ 0.1 | \$ 0.1 |
| Amount recorded into Cost of Products Sold associated with excluded time value | \$ | \$ |
| Amount recorded into Cost of Products Sold due to hedge ineffectiveness | \$ (0.1) | \$ (0.1) |

Refer to Note M Fair Value Measurements of Financial Assets and Financial Liabilities for a description of how the above financial instruments are valued and Note C Accumulated Other Comprehensive Loss and Comprehensive Loss for additional information on changes in other comprehensive loss for the third quarter and first three quarters of fiscal 2010 and 2009.

Cash Flow Hedges

The purpose of our foreign currency hedging activities is to protect us from the risk that the eventual cash flows resulting from transactions in foreign currencies, including revenue, product costs, selling and administrative expenses and intercompany transactions will be adversely affected by changes in exchange rates. It is our policy to utilize derivatives to reduce foreign currency exchange risks where internal netting strategies cannot be effectively employed. As of April 2, 2010, hedged transactions included our customer and intercompany backlog and outstanding purchase commitments denominated primarily in the Euro, Philippine peso, Polish zloty, Singapore dollar and Republic of South Africa rand. We hedge up to 100% of anticipated exposures typically one to three months in advance, but have hedged as much as six months in advance. We generally review our exposures twice each month and adjust the amount of derivatives outstanding as needed.

A derivative designated as a hedge of a forecasted transaction is carried at fair value with the effective portion of the derivative's fair value recorded in other comprehensive income or loss and subsequently recognized in earnings in the same period or periods the hedged transaction affects earnings. Any ineffective or excluded portion of a derivative's gain or loss is recorded in earnings as it occurs. In some cases, amounts recorded in other comprehensive income or loss will be released to net income or loss some time after the maturity of the related derivative. The consolidated statement of income classification of effective hedge results is the same as that of the underlying exposure. For example, results of hedges of revenue and product costs are recorded in revenue and cost of external product sales, respectively, when the underlying hedged transaction is recorded.

As of April 2, 2010, there was less than \$0.1 million of deferred net gains on both outstanding and matured derivatives accumulated in other comprehensive loss that are expected to be reclassified to net income or loss during the next twelve months as a result of underlying hedged transactions also being recorded in net income or loss. Actual amounts ultimately reclassified to net income or loss are dependent on the exchange rates in effect when derivative contracts that are currently outstanding mature. As of April 2, 2010, the maximum term over which we are hedging cash flow exposures is six months.

We formally assess both at inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. We discontinue hedge accounting when the derivative expires or is sold, terminated, or exercised or it is no longer probable that the forecasted

transaction will occur. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, we discontinue hedge accounting and re-designate the hedge as a non-designated hedge, if it is still outstanding at the time the determination is made.

When we discontinue hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income or loss and is reclassified to net income or loss when the forecasted transaction affects net income or loss. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains

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and losses that were accumulated in other comprehensive income or loss will be recognized immediately in net income or loss. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing future changes in the fair value in cost of external product sales.

Non-Designated Hedges

As mentioned above, the total notional amount of outstanding derivatives as of April 2, 2010 not designated as cash flow hedging instruments was \$65.4 million. The purpose of these hedges is to offset realized and unrealized foreign exchange gains and losses recorded on non-functional currency monetary assets and liabilities, including primarily cash balances and accounts receivable and accounts payable from third party and intercompany transactions recorded on the balance sheet. Since these gains and losses are considered by us to be operational in nature, we record both the gains and losses from the revaluation of the balance sheet transactions and the gains and losses on the derivatives in cost of products sold. During the third quarter and first three quarters of fiscal 2010, we recorded in cost of products sold the following amount of net losses recorded on non-designated hedges as follows, in millions:

| | Third Quarter Ended April 2, 2010 | Three Quarters Ended April 2, 2010 | Location of Gain (Loss) Recognized in Income on Derivatives |
|--|--|---|--|
| Derivatives not designated as hedging instruments: | | | |
| Gains (losses) on foreign exchange forward contracts | \$ | \$ | (1.6) Cost of products sold |

Credit Risk

We are exposed to credit-related losses in the event of non-performance by counterparties to hedging instruments. The counterparties to all derivative transactions are major financial institutions with investment grade credit ratings. However, this does not eliminate our exposure to credit risk with these institutions. Should any of these counterparties fail to perform as contracted, we could incur interest charges and unanticipated gains or losses on the settlement of the derivatives in addition to the recorded fair value of the derivative due to non-delivery of the currency. To manage this risk, we have established strict counterparty credit guidelines and maintain credit relationships with several financial institutions providing foreign currency exchange services in accordance with corporate policy. As a result of the above considerations, we consider the risk of counterparty default to be immaterial.

We have informal credit facilities with several commercial banks under which we transact foreign exchange transactions. These facilities are generally restricted to a total notional amount outstanding, a maximum settlement amount in any one day and a maximum term. There are no written agreements supporting these facilities with the exception of one bank which provided us with their general terms and conditions for trading that we acknowledged. None of the facilities are collateralized and none require compliance with financial covenants or contain cross default or other provisions which could affect other credit arrangements we have with the same or other banks. If we fail to deliver currencies as required upon settlement of a trade, the bank may require early settlement on a net basis of all derivatives outstanding and if any amounts are still owing to the bank, they may charge any cash account we have with the bank for that amount.

Note O Net Loss per Share of Common Stock

We compute net (loss) income per share of common stock using the two-class method. Basic net loss per share is computed using the weighted average number of common shares outstanding and unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) during the period. Such unvested share-based payment awards are considered to be participating securities. During the third quarter and first three quarters of fiscal 2010 and 2009, we recorded a net loss, so the potential dilution from the assumed exercise of stock options and nonvested stock is anti-dilutive. Accordingly, our basic and diluted net loss per

common share amounts are the same.

Note P Preferred Share Purchase Rights

On April 20, 2009, our board of directors adopted a rights plan. The terms of the rights and the rights plan are set forth in a Rights Agreement dated as of April 20, 2009 (the Rights Plan). The Rights Plan was intended to act as a deterrent to any person or group acquiring 15% or more of our outstanding common stock without the approval of our board of directors. The Rights Plan expired by its own terms on January 20, 2010.

Table of Contents**Note Q Legal Proceedings**

We and certain of our current and 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 shareholders 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. This action relates 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. Similar complaints were filed in the United States District Court of Delaware on October 6 and October 30, 2008. Each complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, as well as violations of Sections 11 and 15 of the Securities Act of 1933 and seeks, among other relief, determinations that the action is a proper class action, unspecified compensatory damages and reasonable attorneys' fees and costs. The actions were consolidated on June 5, 2009 and a consolidated class action complaint was filed on July 29, 2009. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

On February 8, 2007, a court order was entered against Stratex do Brasil, a subsidiary of Aviat U.S., Inc. (formerly Harris Stratex Networks Operating Corporation), in Brazil, to enforce performance of an alleged agreement between the former Stratex Networks, Inc. entity and a supplier. We have not determined what, if any, liability this may result in, as the court did not award any damages. We have appealed the decision to enforce the alleged agreement, and do not expect this litigation to have a material adverse effect on our business, operating results or financial condition.

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.

Note R Goodwill and Trade Name Impairments

During the second quarter of fiscal 2009, we recorded impairment charges related to our goodwill and trade name intangible assets. Following is a discussion of these impairments and the related effects on our financial statements.

We test our goodwill and other indefinite-lived intangible assets as part of our fiscal year-end financial close process and when events or circumstances indicate there may be an impairment. The majority of our goodwill and the trade name *Stratex* were recorded in connection with the acquisition of Stratex in January 2007 and were included in the International segment of our business. In January 2009, we determined that based on the global economic environment and decline of our market capitalization, it was likely that indicators of goodwill impairment existed as of the end of the second quarter of fiscal 2009. As a result, we performed an interim review for impairment of our goodwill and other indefinite-lived intangible assets (consisting solely of the trade name *Stratex*).

To test for potential impairment of our goodwill, we determined the fair value of each of our reporting segments based on projected discounted cash flows and market-based multiples applied to revenue and earnings. The results indicated an impairment to goodwill, because the current carrying value of the North America and International segments exceeded their fair value. We then allocated these fair values to the respective underlying assets and liabilities to determine the implied fair value of goodwill, resulting in a \$279.0 million charge to write down all of our goodwill in the second quarter of fiscal 2009. We determined the fair value of the trade name *Stratex* by performing a projected discounted cash flow analysis based on the relief-from-royalty approach, resulting in a \$22.0 million charge to write down a majority of the trade name *Stratex* in the second quarter of fiscal 2009.

For reasons similar to those stated above, we also conducted a review of our long-lived assets, including amortizable intangible assets. This review did not indicate that an impairment to these assets existed as of the end of the second quarter of fiscal 2009.

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The following table summarizes the goodwill and trade name impairment charges recorded in the Condensed Consolidated Statement of Operations by reporting unit:

| (in millions) | Three Quarters Ended April 3, 2009 | |
|---------------|---------------------------------------|---------------|
| | Goodwill | Trade Name |
| North America | \$ 31.8 | \$ 0.7 |
| International | 247.2 | 21.3 |
| Total | \$ 279.0 | \$ 22.0 |

A summary of changes in the goodwill balance sheet account during the three quarters ended April 3, 2009 by reporting unit, is as follows:

| | June 27, 2008 | Acquisitions | Adjustments (In millions) | Impairments | April 3, 2009 |
|---------------|---------------------|--------------|---------------------------------|-------------|---------------------|
| North America | \$ 36.2 | \$ | \$ (4.4) | \$ (31.8) | \$ |
| International | 248.0 | 1.2 | (0.8) | (247.2) | 1.2 |
| Total | \$ 284.2 | \$ 1.2 | \$ (5.2) | \$ (279.0) | \$ 1.2 |

A summary of changes in the goodwill balance sheet account during the three quarters ended April 2, 2010 by reporting unit, is as follows:

| | July 3, 2009 | Acquisitions | Adjustments (In millions) | Impairments | April 2, 2010 |
|---------------|--------------------|--------------|---------------------------------|-------------|---------------------|
| North America | \$ | \$ | \$ | \$ | \$ |
| International | 3.2 | | 3.0 | | 6.2 |
| Total | \$ 3.2 | \$ | \$ 3.0 | \$ | \$ 6.2 |

The increase of \$3.0 million to the goodwill balance sheet account during the three quarters ended April 2, 2010 results from purchase accounting adjustments to accounts receivable, inventory and property, plant and equipment. Such goodwill was recorded from our acquisition of Telsima Networks, Inc. on February 27, 2009.

A summary of changes in the Stratex trade name balance sheet account during the three quarters ended April 3, 2009 by reporting unit, is as follows:

| | June 27, 2008 | Acquisitions | Adjustments (In millions) | Impairments | April 3, 2009 |
|--|---------------------|--------------|---------------------------------|-------------|---------------------|
|--|---------------------|--------------|---------------------------------|-------------|---------------------|

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| | | | | | |
|---------------|---------|----|----|-----------|---------|
| North America | \$ 1.0 | \$ | \$ | \$ (0.7) | \$ 0.3 |
| International | 32.0 | | | (21.3) | 10.7 |
| Total | \$ 33.0 | \$ | \$ | \$ (22.0) | \$ 11.0 |

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Aviat Networks, Inc. (previously known as Harris Stratex Networks, Inc.):

We have reviewed the condensed consolidated balance sheet of Aviat Networks, Inc. and subsidiaries as of April 2, 2010, and the related condensed consolidated statements of operations for the quarter and three quarters ended April 2, 2010 and April 3, 2009, and the condensed consolidated statements of cash flows for the three quarters ended April 2, 2010 and April 2, 2009. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with US generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aviat Networks, Inc. and subsidiaries as of July 3, 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive loss, and cash flows for the year then ended not presented herein and in our report dated September 3, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of July 3, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Raleigh, North Carolina
May 12, 2010

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

This Quarterly Report on Form 10-Q, including Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not materialize or prove correct, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed 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 believes, expects, may, should, would, will, intends, plans, estimates, anticipates, projects, targets, goals, seeing, forecasts, future, predict, might, could, potential, or the negative of these terms, and similar words or expressions. Forward looking statements in this document are based on information available to us as of the date hereof and we assume no obligation to update any such forward-looking statements.

These forward-looking statements are based on estimates reflecting our current beliefs. 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:

downturn in the global economy affecting customer spending;

the ability of our customers to access capital markets in developing countries;

continued price erosion as a result of increased competition in the microwave transmission industry;

the volume, timing and customer, product and geographic mix of our product orders may have an impact on our operating results;

the ability to achieve our business plans;

the ability to manage and maintain key customer relationships;

the ability to maintain projected product rollouts, product functionality, anticipated cost reductions or market acceptance of planned products;

the ability to successfully integrate acquired entities;

future costs or expenses related to litigation;

the ability of our subcontractors to perform or our key suppliers to manufacture or deliver material;

customers may not pay for products or services in a timely manner, or at all;

the failure to protect our intellectual property rights and our ability to defend ourselves against intellectual property infringement claims by others;

currency and interest rate risks;

the impact of political, economic and geographic risks on international sales;

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the impact of slowing growth in the wireless telecommunications market combined with supplier and operator consolidations;

Other factors besides those listed here also could adversely affect us. Additional details and discussions concerning some of the factors that could affect our forward-looking statements or future results are set forth in our Fiscal 2009 Form 10-K under Part I. Item 1A. Risk Factors filed with the Securities and Exchange Commission on September 4, 2009. The foregoing list of factors and the factors set forth in Item 1A. Risk Factors included in our Fiscal 2009 Form 10-K and in Part II. Item 1A. Risk Factors in this Quarterly Report on Form 10-Q are not exhaustive. Additional risks and uncertainties not known to us or that we currently believe not to be material also may adversely impact our operations and financial position. Should any risks or uncertainties develop into actual events, these developments could have a material adverse effect on our business, results of operations, financial position and cash flows.

You should not place undue reliance on these forward-looking statements, which reflect our management's opinions only as of the date of the filing of this Quarterly Report on Form 10-Q. Forward-looking statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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 Quarterly Report on Form 10-Q or, in the case of any document incorporated by reference, the date of that document, and disclaim any obligation to do so.

RESULTS OF OPERATIONS - Quarter Ended April 2, 2010 compared with Quarter Ended April 3, 2009**Key Operating Results**

Operations results for the third quarter of fiscal 2010 include:

Net loss was \$25.7 million, or \$0.43 per share, in the third quarter of fiscal 2010 compared with net loss of \$39.4 million, or \$0.67 per diluted share, in the third quarter of fiscal 2009;

Revenue decreased 24.1 percent to \$120.0 million in the third quarter of fiscal 2010 from \$158.0 million in the third quarter of fiscal 2009;

Our North America segment revenue decreased 7.9 percent to \$39.6 million and reported an operating loss of \$22.6 million compared with an operating loss of \$28.8 million in the third quarter of fiscal 2009;

Our International segment revenue decreased 30.1 percent to \$80.4 million and reported an operating loss of \$6.4 million compared with an operating loss of \$6.4 million in the third quarter of fiscal 2009;

Net cash provided by operating activities was \$17.9 million in the third quarter of fiscal 2010 compared with \$28.9 million in the third quarter of fiscal 2009.

Discussion of Consolidated Results of Operations***Revenue and Net Loss***

| | Quarter Ended | | Percentage |
|--------------|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$ 120.0 | \$ 158.0 | (24.1)% |
| Net loss | \$ (25.7) | \$ (39.4) | N/M |
| % of revenue | N/M | N/M | |

N/M = Not statistically meaningful

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Our revenue in the third quarter of fiscal 2010 was \$120.0 million, a decrease of \$38.0 million or 24.1%, compared with the third quarter of fiscal 2009. This decrease in revenue resulted from significant declines in all regions except Latin America and Asia Pacific. These declines in revenue were most acutely noted in Africa and Europe, Middle East and Russia. Declines resulted primarily from reduced customer demand due to the global economic recession and the effects of the continuing credit crisis on our customers' ability to finance expansion, as well as increased competition from our competitors. Increased competition has affected product pricing and the ability to combine microwave equipment with other product sales and services. Furthermore, revenue has been negatively affected by anticipated or planned consolidation of our customers and foreign government-based subsidized financing, particularly in Africa. Revenue by region comparing the third quarter of fiscal 2010 with the third quarter of fiscal 2009 and the related decreases is shown in the table below:

| | Quarter Ended | | Amount | Percentage |
|---------------------------------|---------------|---------------|-----------------------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | | |
| | | | Increase/(Decrease) | Increase/(Decrease) |
| | | | (In millions, except percentages) | |
| North America | \$ 39.6 | \$ 43.0 | \$ (3.4) | (7.9)% |
| International: | | | | |
| Africa | 37.7 | 63.6 | (25.9) | (40.7)% |
| Europe, Middle East, and Russia | 22.9 | 33.0 | (10.1) | 30.6% |
| Latin America and Asia Pacific | 19.8 | 18.4 | 1.4 | 7.6% |
| Total International | 80.4 | 115.0 | (34.6) | (30.1)% |
| Total Revenue | \$ 120.0 | \$ 158.0 | \$ (38.0) | (24.1)% |

During the third quarter of fiscal 2010, MTN group in Africa (MTN) accounted for 27% of our total revenue. During the third quarter of fiscal 2009, MTN accounted for 29% of our total revenue.

Our net loss in the third quarter of fiscal 2010 was \$25.7 million compared with a net loss of \$39.4 million in the third quarter of fiscal 2009. The net loss in the third quarter of fiscal 2010 included \$16.9 million of charges to converge multiple distinct microwave products onto a single platform by the end of fiscal year 2010. These charges included \$7.9 million related to provisions for legacy product excess and obsolete inventory, and \$5.5 million for impairment of a building and idle equipment. Additionally, \$3.5 million in charges were recorded for inventory purchase commitments. The net loss in the third quarter of fiscal 2010 also included restructuring charges, expenses for rebranding in connection with the change in Company name and transitional costs required by the license agreement termination notice from Harris Corporation, share-based compensation expense, as well as purchase accounting adjustments and other expenses related to the acquisitions of Stratex and Telsima.

The net loss of \$39.4 million in the third quarter of fiscal 2009 primarily resulted from charges to accelerate our product transition towards a common IP-based platform, restructuring charges, software impairment charges, share-based compensation expense, as well as purchase accounting adjustments and other expenses related to the acquisitions of Stratex and Telsima.

These charges and expenses are set forth on a comparative basis in the table below:

| Quarter Ended | Quarter Ended |
|---------------|---------------|
| April 2, 2010 | April 3, 2009 |

| | (In millions) | |
|--|----------------------|---------|
| Charges for product transition | \$ 16.9 | \$ 29.8 |
| Software impairment charges | | 2.9 |
| Acquired in-process research and development from Telsima | | 2.4 |
| Amortization of purchased technology | 2.1 | 1.8 |
| Amortization of trade names and customer relationships | 1.3 | 1.4 |
| Restructuring charges | 0.7 | 0.5 |
| Rebranding and transitional costs | 0.8 | |
| Amortization of the fair value adjustments related to fixed assets | 0.2 | 0.3 |
| Severance costs to move certain executive positions to California office | 0.6 | |
| Share-based compensation expense | 0.3 | 0.5 |
| | \$ 22.9 | \$ 39.6 |

During the third quarter of fiscal 2010, we continued executing restructuring activities that commenced during fiscal 2009 (the Fiscal 2009 Plan) to reduce our workforce in the U.S., France, Canada and other locations throughout the world. During the third quarter of fiscal 2010, our restructuring charges totaled \$0.7 million consisting of:

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Severance, retention and related charges totaling \$0.5 million for reduction in force activities.

Charges totaling \$0.1 million for relocation of U.S. employees to North Carolina from Florida.

Charges totaling \$0.1 million for adjustments to facilities lease obligations.

During fiscal 2009, we implemented the Fiscal 2009 Plan to reduce our workforce in Canada, Brazil and the U.S. and other locations throughout the world. During the third quarter of fiscal 2009, our restructuring charges totaled \$0.5 million consisting of:

Severance, retention and related charges associated with reduction in force activities totaling \$0.6 million.

Facility restoration costs totaling \$0.2 million at our Canadian location.

Adjustments to the restructuring liability under our 2007 restructuring plans for changes in estimates to reduce the severance liability in Canada (\$0.3 million).

To converge multiple distinct microwave products onto a single platform by the end of fiscal year 2010 and complete the outsourcing of our manufacturing activities, we expect to incur \$2.8 million in restructuring charges with the majority of such charges occurring in the North America segment. Specifically, we expect to incur \$1.8 million of costs to outsource our manufacturing operations in San Antonio and certain international locations with an additional \$1.0 million to be used for related severance payments at various locations worldwide.

Gross Margin

| | Quarter Ended | | Percentage |
|------------------------------------|--|--------------------------|----------------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$ 120.0 | \$ 158.0 | (24.1)% |
| Cost of product sales and services | (101.8) | (141.5) | (28.1)% |
| Gross margin | \$ 18.2 | \$ 16.5 | 10.3% |
| % of revenue | 15.2% | 10.4% | |

Gross margin in the third quarter of fiscal 2010 was \$18.2 million, or 15.2% of revenue, compared with \$16.5 million, or 10.4% of revenue in the third quarter of fiscal 2009. Gross margin in the third quarter of fiscal 2010 was impacted by \$19.1 million which included \$16.9 million of charges to converge our products onto a single platform by the end of fiscal year 2010. These charges included \$7.9 million related to provisions for legacy product excess and obsolete inventory, and \$5.5 million for impairment of a building and idle equipment. Additionally, \$3.5 million in charges were recorded for inventory purchase commitments, \$2.1 million for amortization of developed technology and \$0.1 million of amortization of the fair value of adjustments for fixed assets acquired from Stratex.

Gross margin in the third quarter of fiscal 2010 was also negatively affected by a higher proportion of revenue recognized in our North America segment compared with the same period in fiscal 2009. Gross margin percentage from our revenue in North America is generally lower than in our International segment. Revenue in North America was 33% of our total revenue during the third quarter of fiscal 2010 compared with 27% in the same period of fiscal 2009. Additionally, we experienced a reduction in the volume of our legacy products which combined with increased start-up production costs of new products, adversely affected our gross margin.

By comparison, gross margin in the third quarter of fiscal 2009 was reduced by \$31.6 million, which included \$26.4 million in charges for legacy product excess and obsolete inventory and write-downs of property, plant, manufacturing and test equipment. Additionally, \$3.4 million in charges were recorded for inventory purchase commitments, \$1.8 million for amortization of developed technology and \$0.1 million of amortization of the fair value of adjustments for fixed assets acquired from Stratex.

Table of Contents**Research and Development Expenses**

| | Quarter Ended | | Percentage |
|-----------------------------------|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$ 120.0 | \$ 158.0 | (24.1)% |
| Research and development expenses | \$ 10.2 | \$ 9.9 | 3.0% |
| % of revenue | 8.5% | 6.3% | |

Research and development (R&D) expenses were \$10.2 million in the third quarter of fiscal 2010 compared with \$9.9 million in the third quarter of fiscal 2009. As a percentage of revenue, these expenses increased to 8.5% in the third quarter of fiscal 2010 from 6.3% in the third quarter of fiscal 2009 because of a 3.0% increase in spending and the impact of lower revenue. The increase in R&D spending in the third quarter of fiscal 2010 compared with the third quarter of fiscal 2009 was primarily attributable to increases in the areas of WiMAX and Energy, Security and Surveillance, partially offset by a reduction in TRuepoint 6000 development efforts.

Selling and Administrative Expenses

| | Quarter Ended | | Percentage |
|-------------------------------------|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$ 120.0 | \$ 158.0 | (24.1)% |
| Selling and administrative expenses | \$ 35.0 | \$ 34.6 | 1.2% |
| % of revenue | 29.2% | 21.9% | |

The following table summarizes the significant increases and decreases to our selling and administrative expenses comparing the third quarter of fiscal 2010 with the third quarter of fiscal 2009:

| | Increase/(Decrease) (In millions) |
|--|--------------------------------------|
| Increase in administrative costs due to WiMax and Energy, Security and Surveillance initiatives | \$ 3.0 |
| Increase in sales commissions due to higher revenue recognized from sales through outside agents | 2.0 |
| Increase due to rebranding and transitional costs due to Company name change | 0.4 |
| Decrease in administrative costs due primarily to restructuring and cost reduction activities during fiscal 2009 | (1.0) |
| Decrease in provision for bad debts expense | (4.6) |
| Other, net | 0.6 |
| | \$ 0.4 |

Income Taxes

| | Quarter Ended | | Percentage |
|---|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Loss before income taxes | \$ (29.6) | \$ (35.8) | N/M |
| (Benefit from) provision for income taxes | \$ (3.9) | \$ 3.6 | N/M |

| | | |
|-------------------------------|-----|-----|
| % of loss before income taxes | N/M | N/M |
|-------------------------------|-----|-----|

N/M = Not statistically meaningful

The benefit from income taxes for the first three quarters of fiscal 2010 and the provision for income taxes for the first three quarters of fiscal 2009 reflect our pre-tax income based on our estimated annual effective tax rate, adjusted for losses in separate jurisdictions for which no tax benefit can be recognized.

The \$3.9 million benefit from income taxes for the first three quarters of fiscal 2010 consists of a \$4.4 million one-time benefit for U.S. loss carry back under the Worker, Homeownership, and Business Assistance Act of 2009 (the Act) partially offset by \$0.5 million of tax expense generated in certain profitable foreign jurisdictions.

Our effective tax rate varies from the U.S. federal statutory rate of 35% for the first three quarters of fiscal 2010 and 2009 due to results of foreign operations that are subject to income taxes at different statutory rates and certain jurisdictions where we cannot recognize tax benefits on current losses.

Table of Contents**Discussion of Business Segment Results of Operations*****North America Segment***

| | Quarter Ended | | Percentage |
|------------------------|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$ 39.6 | \$ 43.0 | (7.9)% |
| Segment operating loss | \$(22.6) | \$(28.8) | N/M |
| % of revenue | N/M | N/M | |

N/M = Not statistically meaningful

North America segment revenue decreased by \$3.4 million, or 7.9%, in the third quarter of fiscal 2010 compared with the third quarter of fiscal 2009. This decrease in revenue resulted primarily from the global economic recession and the continuing credit crisis adversely affecting our customers' expansion and increased competition affecting product pricing and the ability to combine microwave equipment with other product sales and services. The operating loss in the third quarter of fiscal 2010 resulted primarily from the decline in revenue when compared with the third quarter of fiscal 2009 and \$16.9 million of charges to complete our product transition towards a common IP-based platform.

The operating losses in the third quarter of fiscal 2010 and 2009 included charges for product transition, restructuring charges, expenses for rebranding in connection with the change in Company name and transitional costs required by the license agreement termination notice from Harris Corporation, as well as purchase accounting related expenses and share-based compensation expense.

These charges and expenses are set forth on a comparative basis in the table below:

| | Quarter Ended April 2, 2010 | Quarter Ended April 3, 2009 |
|--|--------------------------------------|--------------------------------|
| | (In millions) | |
| Charges for product transition | \$ 16.9 | \$ 25.3 |
| Software impairment charges | | 2.9 |
| Amortization of developed technology, trade names and customer relationships | 3.1 | 0.4 |
| Rebranding and transitional costs | 0.7 | |
| Restructuring charges | 0.5 | 0.4 |
| Amortization of the fair value adjustments related to fixed assets | 0.2 | 0.1 |
| Severance costs to move certain executive positions to California office | 0.6 | |
| Share-based compensation expense | 0.3 | 0.5 |
| | \$ 22.3 | \$ 29.6 |

International Segment

| | Quarter Ended | | Percentage |
|--|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |

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| | | | |
|---------------------------------|----------|----------|---------|
| Revenue | \$ 80.4 | \$ 115.0 | (30.1)% |
| Segment operating income (loss) | \$ (6.4) | \$ (6.4) | 0.0% |
| % of revenue | N/M | N/M | |

N/M = Not statistically
meaningful

International segment revenue decreased by \$34.6 million or 30.1% in the third quarter of fiscal 2010 compared with the third quarter of fiscal 2009. This decrease in revenue resulted from significant declines in all regions except Latin America and Asia Pacific. Declines in revenue were most acute in Africa and Europe, Middle East and Russia. This decrease in revenue was primarily due to the global economic recession and the continuing credit crisis adversely affecting our customers' expansion and increased competition affecting product pricing and the ability to combine microwave equipment with other product sales and services.

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The International segment operating loss in the third quarter of fiscal 2010 resulted primarily from the decline in revenue when compared with revenue in the third quarter of fiscal 2009. The operating losses in the third quarter of fiscal 2010 and 2009 included restructuring charges, expenses for rebranding in connection with the change in Company name and transitional costs required by the license agreement termination notice from Harris Corporation, as well as purchase accounting related expenses. These charges and expenses are set forth on a comparative basis in the table below:

| | Quarter Ended April 2, 2010 | Quarter Ended April 3, 2009 |
|--|--|--|
| | (In millions) | |
| Charges for product transition | \$ | \$ 4.5 |
| Acquired in-process research and development | | 2.4 |
| Amortization of developed technology, trade names and customer relationships | 0.3 | 2.8 |
| Restructuring charges | 0.2 | 0.1 |
| Rebranding and transitional costs | 0.1 | |
| Amortization of the fair value adjustments related to fixed assets | | 0.2 |
| | \$ 0.6 | \$ 10.0 |

Three Quarters Ended April 2, 2010 compared with Three Quarters Ended April 3, 2009**Key Operating Results**

Operations results for the first three quarters of fiscal 2010 include:

Net loss was \$41.4 million, or \$0.70 per share, in the first three quarters of fiscal 2010 compared with a net loss of \$351.6 million, or \$5.99 per diluted share, in the first three quarters of fiscal 2009;

Revenue decreased 33.4 percent to \$362.6 million in the first three quarters of fiscal 2010 from \$544.7 million in the first three quarters of fiscal 2009;

Our North America segment revenue decreased 20.6 percent to \$137.0 million and reported an operating loss of \$35.4 million compared with an operating loss of \$59.2 million in the first three quarters of fiscal 2009;

Our International segment revenue decreased 39.4 percent to \$225.6 million and reported an operating loss of \$6.2 million compared with an operating loss of \$263.1 million in the first three quarters of fiscal 2009;

Net cash provided by operating activities was \$21.8 million in the first three quarters of fiscal 2010 compared with \$45.3 million in the first three quarters of fiscal 2009.

Discussion of Consolidated Results of Operations***Revenue and Net Loss***

| | Three Quarters Ended April 2, 2010 | Three Quarters Ended April 3, 2009 | Percentage Increase/(Decrease) |
|--------------|---|---|---|
| | (In millions, except percentages) | | |
| Revenue | \$362.6 | \$ 544.7 | (33.4)% |
| Net loss | \$ (41.4) | \$ (351.6) | N/M |
| % of revenue | N/M | N/M | |

N/M = Not statistically
meaningful

Our revenue in the first three quarters of fiscal 2010 was \$362.6 million, a decrease of \$182.1 million or 33.4%, compared with the first three quarters of fiscal 2009. This decrease in revenue resulted from significant declines in all regions, most acutely in Africa and Europe, Middle East and Russia. Declines resulted primarily from reduced customer demand due to the global economic recession and the effects of the continuing credit crisis on our customers ability to finance expansion, as well as increased competition from our

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competitors. Increased competition has affected product pricing and the ability to combine microwave equipment with other product sales and services. Furthermore, revenue has been negatively affected by anticipated or planned consolidation of our customers and foreign government-based subsidized financing, particularly in Africa. Revenue by region comparing the first three quarters of fiscal 2010 with the first three quarters of fiscal 2009 and the related decreases is shown in the table below:

| | Three Quarters Ended | | Amount | Percentage |
|---------------------------------|-----------------------------------|---------------|---------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) | Increase/(Decrease) |
| | (In millions, except percentages) | | | |
| North America | \$ 137.0 | \$ 172.6 | \$ (35.6) | (20.6)% |
| International: | | | | |
| Africa | 86.2 | 181.1 | (94.9) | (52.4)% |
| Europe, Middle East, and Russia | 71.4 | 119.6 | (48.2) | (40.3)% |
| Latin America and AsiaPac | 68.0 | 71.4 | (3.4) | (4.8)% |
| Total International | 225.6 | 372.1 | (146.5) | (39.4)% |
| Total Revenue | \$ 362.6 | \$ 544.7 | \$ (182.1) | (33.4)% |

During the first three quarters of fiscal 2010, MTN accounted for 15% of our total revenue. During the first three quarters of fiscal 2009, MTN accounted for 17% of our total revenue.

Our net loss in the first three quarters of fiscal 2010 was \$41.4 million compared with a net loss of \$351.6 million in the first three quarters of fiscal 2009. The net loss in the first three quarters of fiscal 2010 included charges to converge our products onto a single platform by the end of fiscal year 2010. These charges included \$7.9 million related to provisions for legacy product excess and obsolete inventory, and \$5.5 million for impairment of a building and idle equipment. Additionally, \$3.5 million in charges were recorded for inventory purchase commitments. The net loss in the third quarter of fiscal 2010 also included restructuring charges, expenses for rebranding in connection with the change in Company name and transitional costs required by the license agreement termination notice from Harris Corporation, share-based compensation expense, as well as purchase accounting adjustments and other expenses related to the acquisitions of Stratex and Telsima.

The net loss of \$351.6 million in the first three quarters of fiscal 2009 primarily resulted from impairment charges for goodwill and the trade name Stratex, charges to accelerate our product transition towards a common IP-based platform and increasing the valuation allowance on certain deferred tax assets, as well as purchase accounting adjustments and other expenses related to the acquisitions of Stratex and Telsima.

These charges and expenses are set forth on a comparative basis in the table below:

| | Three Quarters Ended April 2, 2010 | Three Quarters Ended April 3, 2009 |
|--|------------------------------------|------------------------------------|
| | (In millions) | |
| Goodwill impairment charges | \$ | \$ 279.0 |
| Impairment charges for the trade name Stratex | | 22.0 |
| Charges for product transition | 16.9 | 29.8 |
| Charge for increasing the valuation allowance on certain deferred tax assets | | 20.8 |

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| | | |
|--|---------|----------|
| Amortization of purchased technology | 6.3 | 5.4 |
| Amortization of trade names and customer relationships | 4.3 | 4.2 |
| Software impairment charges | | 2.9 |
| Acquired in-process research and development | | 2.4 |
| Restructuring charges | 3.3 | 4.9 |
| Rebranding and transitional costs | 2.4 | |
| Amortization of the fair value adjustments related to fixed assets | 0.6 | 1.5 |
| Severance costs to move certain executive positions to California office | 0.6 | |
| Share-based compensation expense | 1.9 | 2.0 |
| | \$ 36.3 | \$ 374.9 |

During the first three quarters of fiscal 2010, we continued executing restructuring activities that commenced during fiscal 2009 to reduce our workforce in the U.S., France, Canada and other locations throughout the world. During the first three quarters of fiscal 2010, our restructuring charges totaled \$3.3 million consisting of:

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Severance, retention and related charges totaling \$2.4 million associated with reduction in force activities.

Charges totaling \$0.4 million related to the relocation of U.S. employees to North Carolina from Florida.

Charges totaling \$0.5 million for adjustments to facilities lease obligations.

During the first three quarters of fiscal 2009, our restructuring charges totaled \$4.9 million consisting of:

Severance, retention and related charges associated with reduction in force activities totaling \$5.2 million.

Impairment of fixed assets (non-cash charges) totaling \$0.4 million and facility restoration costs of \$0.5 million at our Canadian location.

Adjustments to the restructuring liability under our 2007 restructuring plans for changes in estimates related to sub-tenant activity at our U.S. (\$0.6 million) and Canadian locations (\$0.3 million).

Adjustments to the restructuring liability under our 2007 restructuring plans for changes in estimates to reduce the severance liability in Canada (\$0.3 million).

Gross Margin

| | Three Quarters Ended | | Percentage |
|------------------------------------|--|--------------------------|----------------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$ 362.6 | \$ 544.7 | (33.4)% |
| Cost of product sales and services | (264.4) | (418.0) | (36.7)% |
| Gross margin | \$ 98.2 | \$ 126.7 | (22.5)% |
| % of revenue | 27.1% | 23.3% | |

Gross margin in the first three quarters of fiscal 2010 was \$98.2 million, or 27.1% of revenue, compared with \$126.7 million, or 23.3% of revenue in fiscal 2009. Gross margin in the first three quarters of fiscal 2010 was impacted by \$23.5 million which included \$16.9 million of charges to converge our products onto a single platform by the end of fiscal year 2010. These charges included \$7.9 million related to provisions for legacy product excess and obsolete inventory, and \$5.5 million for impairment of a building and idle equipment. Additionally, \$3.5 million in charges were recorded for inventory purchase commitments, \$6.3 million for amortization of developed technology and \$0.3 million of amortization of the fair value of adjustments for fixed assets acquired from Stratex.

Our gross margin percentage improved during the first three quarters of fiscal 2010 compared with the same period in fiscal 2009, due to the benefit from the pricing and structure of certain customer arrangements, primarily during the first two quarters. Gross margin also benefited from lower logistics expenses, lower manufacturing overhead and improved supplier pricing on select projects primarily during the first two quarters of fiscal 2010. However, these improvements were partially offset by a reduction in the volume of sales of our legacy products during the third quarter of fiscal 2010 which, combined with increased start-up production costs of new products and the items discussed above, adversely affected our gross margin.

By comparison, gross margin in the first three quarters of fiscal 2009 was impacted by \$35.7 million consisting of \$29.8 million in charges related to product transition, \$5.4 million for amortization of developed technology and \$0.5 million of amortization of the fair value of adjustments for fixed assets acquired from Stratex.

Table of Contents**Research and Development Expenses**

| | Three Quarters Ended | | Percentage |
|-----------------------------------|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$362.6 | \$544.7 | (33.4)% |
| Research and development expenses | \$31.0 | \$29.6 | 4.7% |
| % of revenue | 8.5% | 5.4% | |

R&D expenses were \$31.0 million in the first three quarters of fiscal 2010 compared with \$29.6 million in the first three quarters of fiscal 2009. As a percentage of revenue, these expenses increased to 8.5% in the first three quarters of fiscal 2010 from 5.4% in the first three quarters of fiscal 2009 due to 33.4% lower revenue and a 4.7% increase in spending. The increase in R&D spending in the first three quarters of fiscal 2010 compared with the first three quarters of fiscal 2009 was primarily attributable to increases in the areas of WiMAX and Energy, Security and Surveillance, partially offset by a reduction in TRuepoint 6000 development efforts.

Selling and Administrative Expenses

| | Three Quarters Ended | | Percentage |
|-------------------------------------|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$362.6 | \$544.7 | (33.4)% |
| Selling and administrative expenses | \$101.2 | \$104.0 | (2.7)% |
| % of revenue | 27.9% | 19.1% | |

The following table summarizes the significant increases and decreases to our selling and administrative expenses comparing the first three quarters of fiscal 2010 with the first three quarters of fiscal 2009:

| | Increase/(Decrease) (In millions) |
|---|--------------------------------------|
| Increase due to rebranding and transitional costs due to Company name change and costs to phase-out transitional services agreement with Harris | \$ 2.1 |
| Decrease due to savings from reduced transitional services charges with Harris | (3.3) |
| Decrease in fees related to cost of restatement of financial statements during the prior year | (2.2) |
| Other, net | 0.6 |
| | \$ (2.8) |

Income Taxes

| | Three Quarters Ended | | Percentage |
|---|-----------------------------------|------------------|---------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Loss before income taxes | \$(43.0) | \$(323.6) | N/M |
| (Benefit from) provision for income taxes | \$(1.6) | \$28.0 | N/M |
| % of loss before income taxes | N/M | 8.7% | |

N/M = Not statistically meaningful

The benefit from income taxes for the first three quarters of fiscal 2010 and the provision for income taxes for the first three quarters of fiscal 2009 reflect our pre-tax income based on our estimated annual effective tax rate, adjusted for losses in separate jurisdictions for which no tax benefit can be recognized.

The \$1.6 million benefit from income taxes for the first three quarters of fiscal 2010 consists of a \$4.4 million one-time benefit for U.S. loss carry back under the Worker, Homeownership, and Business Assistance Act of 2009 (the Act) partially offset by \$2.8 million of tax expense generated in certain profitable foreign jurisdictions.

The provision for income taxes during the first three quarters of fiscal 2009 also consisted of a \$20.8 million increase in the valuation allowance for certain deferred tax assets.

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Our effective tax rate varies from the U.S. federal statutory rate of 35% for the first three quarters of fiscal 2010 and 2009 due to results of foreign operations that are subject to income taxes at different statutory rates and certain jurisdictions where we cannot recognize tax benefits on current losses.

Discussion of Business Segment Results of Operations**North America Segment**

| | Three Quarters Ended | | Percentage |
|------------------------|--|--------------------------|----------------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$ 137.0 | \$ 172.6 | (20.6)% |
| Segment operating loss | \$ (35.4) | \$ (59.2) | N/M |
| % of revenue | N/M | N/M | |

N/M = Not statistically meaningful

North America segment revenue decreased by \$35.6 million, or 20.6%, in the first three quarters of fiscal 2010 compared with the first three quarters of fiscal 2009. This decrease in revenue resulted primarily from the global economic recession and the continuing credit crisis adversely affecting our customers expansion.

The North America segment operating loss in the first three quarters of fiscal 2010 resulted primarily from the decline in revenue when compared with revenue in the first three quarters of fiscal 2009 and \$16.9 of charges to complete our product transition towards a common IP-based platform. These charges included \$7.9 million related to provisions for legacy product excess and obsolete inventory, and \$5.5 million for impairment of a building and idle equipment. Additionally, \$3.5 million in charges were recorded for inventory purchase commitments.

The North America segment operating loss of \$59.2 million in the first three quarters of fiscal 2009 primarily resulted from impairment charges for goodwill and the trade name Stratex, as well as charges related to the accelerated transition towards a common IP-based product platform. The operating losses in the first three quarters of fiscal 2010 and 2009 also included charges for product transition, purchase accounting related expenses, restructuring charges and share-based compensation expense. These charges and expenses are set forth on a comparative basis in the table below:

| | Three Quarters Ended April 2, 2010 | Three Quarters Ended April 3, 2009 |
|--|---|---|
| | (In millions) | |
| Goodwill impairment charges | \$ | \$ 31.8 |
| Impairment charges for the trade name Stratex | | 0.7 |
| Charges for product transition | 16.9 | 25.3 |
| Software impairment charges | | 2.9 |
| Amortization of developed technology, trade names and customer relationships | 7.1 | 1.3 |
| Restructuring charges | 2.0 | 4.0 |
| Rebranding and transitional costs | 2.2 | |
| Amortization of the fair value adjustments related to fixed assets | 0.5 | 0.5 |
| Severance costs to move certain executive positions to California office | 0.6 | |
| Share-based compensation expense | 1.7 | 1.6 |

\$ 31.0 \$ 68.1

International Segment

| | Three Quarters Ended | | Percentage |
|---------------------------------|--|--------------------------|----------------------------|
| | April 2, 2010 | April 3, 2009 | Increase/(Decrease) |
| | (In millions, except percentages) | | |
| Revenue | \$225.6 | \$ 372.1 | (39.4)% |
| Segment operating income (loss) | \$ (6.2) | \$ (263.1) | N/M |
| % of revenue | (2.7)% | N/M | |

N/M = Not statistically
meaningful

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International segment revenue decreased by \$146.5 million or 39.4% in the first three quarters of fiscal 2010 compared with the first three quarters of fiscal 2009. This decrease in revenue resulted from significant declines in all regions, most acutely in Africa and Europe, Middle East and Russia. These declines in revenue were primarily due to the global economic recession and the continuing credit crisis adversely affecting our customers' ability to finance expansion, as well as increased competition from our competitors.

The International segment operating loss in the first three quarters of fiscal 2010 resulted primarily from the decline in revenue when compared revenue in the first three quarters of fiscal 2009.

The International segment operating loss of \$263.1 million in the first three quarters of fiscal 2009 primarily resulted from impairment charges for goodwill and the trade name Stratex, as well as charges related to the accelerated transition towards a common IP-based product platform. The operating losses in the first three quarters of fiscal 2010 and 2009 also included purchase accounting related expenses, restructuring charges and share-based compensation expense. These charges and expenses are set forth on a comparative basis in the table below:

| | Three Quarters Ended April 2, 2010 | Three Quarters Ended April 3, 2009 (In millions) |
|--|---|---|
| Goodwill impairment charges | \$ | \$ 247.2 |
| Impairment charges for the trade name Stratex | | 21.3 |
| Amortization of developed technology, trade names and customer relationships | 3.5 | 8.3 |
| Charges for product transition | | 4.5 |
| Acquired in-process research and development | | 2.4 |
| Restructuring charges | 1.3 | 0.9 |
| Rebranding and transitional costs | 0.2 | |
| Amortization of the fair value adjustments related to fixed assets | 0.1 | 1.0 |
| Share-based compensation expense | 0.2 | 0.4 |
| | \$ 5.3 | \$ 286.0 |

Liquidity and Capital Resources**Sources of Cash**

As of April 2, 2010, our principal sources of liquidity consisted of \$140.5 million in cash and cash equivalents plus \$51.4 million of available credit under our current \$70 million credit facility with two commercial banks. Cash flow from operations for the first three quarters of fiscal 2010 totaled \$21.8 million. However, our total accounts receivable has declined to \$115.2 million as of April 2, 2010 from \$142.9 million as of July 3, 2009. As a result, we have a lower level of receivables compared with prior periods as a source of cash, which may negatively affect our cash flow.

We currently believe that existing cash, cash equivalents, cash provided by operations and access to our credit facility will be sufficient to provide for our anticipated requirements for working capital and capital expenditures for at least the next 12 months.

Available Credit Facility and Repayment of Debt

As of April 2, 2010, we had \$51.4 million of credit available under our \$70 million revolving credit facility. The total amount of revolving credit available was \$70 million less \$10 million in outstanding short term loans which mature by December 2010, and \$8.6 million in outstanding standby letters of credit issued under the facility.

The initial commitment of \$70 million under the facility is currently divided equally between Bank of America and Silicon Valley Bank, with each providing \$35 million. The initial term of the facility expires in June 2011 and provides for (1) demand borrowings at the greater of Bank of America's prime rate and the Federal Funds rate plus

0.5%, (2) fixed term Eurodollar loans for six months or more as agreed with the banks at LIBOR plus a spread of between 1.25% to 2.00% based on the company's current leverage ratio and

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(3) the issuance of standby or commercial letters of credit. The facility contains a minimum liquidity ratio covenant and a maximum leverage ratio covenant and is unsecured.

Based on covenants included as part of the credit facility we must maintain, as measured at the last day of each fiscal quarter, (1) no more than a maximum consolidated leverage ratio of 3.00 to 1 (defined as the ratio of total consolidated funded indebtedness to consolidated EBITDA for the four fiscal quarters most recently ended) and (2) a minimum liquidity coverage ratio of 1.75 to 1 (defined as the ratio of total unrestricted cash and equivalents, short-term investments and marketable securities plus 50% of total monetary receivables to the total amount of outstanding loans and letter of credit obligations under the facility). As of April 2, 2010, we were in compliance with these financial covenants.

Restructuring and Related Cash Obligations

We have a liability for restructuring activities totaling \$5.2 million as of April 2, 2010, of which \$4.5 million is classified as a current liability and expected to be paid out in cash over the next year. We expect to fund these future payments with available cash and cash flow provided by operations.

Commercial Commitments and Contractual Obligations

The amounts disclosed in our Fiscal 2009 Form 10-K include our commercial commitments and contractual obligations. As of July 3, 2009, we had \$99.8 million in outstanding letters of credit and surety bonds supporting our performance under various customer contracts and other commercial commitments. During the three quarters ended April 2, 2010, the total amount of these obligations declined by \$23.5 million to \$76.3 million.

During the three quarters ended April 2, 2010, our purchase obligations increased to \$51.5 million as compared with \$46.1 million.

During October 2009, we entered into a 10 year lease for office space in Santa Clara, California to replace our current facilities in San Jose, California. As a result, our total operating lease commitments increased by approximately \$24 million. Our rent expense will not be materially affected during future periods.

Critical Accounting Estimates

For information about our critical accounting estimates, see the *Critical Accounting Estimates* section of *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the fiscal year ended July 3, 2009.

Impact of Recently Issued Accounting Pronouncements

As described in *Note B Accounting Changes and Recent Accounting Pronouncements* in the Notes to Condensed Consolidated Financial Statements, there are accounting pronouncements that have recently been issued but have not yet been implemented by us. Note B describes the potential impact that these pronouncements are expected to have on our financial position, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The information in this section should be read in connection with the information on financial market risk in Part II, Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, in our Fiscal 2009 Form 10-K for the year ended July 3, 2009. The potential changes noted below are based on sensitivity analyses performed on our financial positions as of April 2, 2010. Actual results may differ materially.

Currency Exchange Rate Risk

Descriptions of our currency exchange rate risk are incorporated by reference from Part I, Item 1, *Financial Statements Notes to Condensed Consolidated Financial Statements Note N Risk Management, Derivative Financial Instruments and Hedging Activities* in response to this item.

Table of Contents***Interest Rate Risk***

Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents and short-term debt borrowings.

Exposure on Cash Equivalents

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

We had \$140.5 million in cash and cash equivalents as of April 2, 2010. Cash equivalents totaled \$24.0 million as of April 2, 2010.

The primary objective of our short-term investment activities is to preserve principal while maximizing yields, without significantly increasing risk. Our cash equivalents earn interest at fixed rates; therefore, changes in interest rates will not generate a gain or loss on these investments unless they are sold prior to maturity. Actual gains and losses due to the sale of our investments prior to maturity have been immaterial. The weighted average days to maturity for cash equivalents held as of April 2, 2010 was two days, and these investments had an average yield of 0.32% per annum. A 10% change in interest rates on our cash and cash equivalents is not expected to have a material impact on our financial position, results of operations or cash flows.

Cash equivalents have been recorded at fair value on our balance sheet.

Exposure on Short-Term Debt Borrowings

During fiscal 2010, borrowings under our \$70 million revolving credit facility incurred interest under the London Interbank Offered Rate (LIBOR) plus 1.25%. As of April 2, 2010, our weighted average interest rate was 1.96%. During the third quarter and first three quarters of fiscal 2010, we had between \$10 million and \$15 million of short-term borrowings outstanding under the credit facility. We recorded total interest expense on these borrowings of \$0.2 million three quarters ended April 2, 2010. A 10% change in interest rates on the current borrowings or on future borrowings is not expected to have a material impact on our financial position, results of operations or cash flows since interest on our short-term debt is not material to our overall financial position.

Item 4. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have concluded based on their evaluation that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, as of April 2, 2010.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting are or will be capable of preventing or detecting all errors and all fraud. Any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the

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control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Descriptions of our legal proceedings are incorporated by reference from Part I, Item 1, Financial Statements Notes to Condensed Consolidated Financial Statements Note Q in response to this item.

Item 1A. Risk Factors.

Investors should carefully review and consider the information regarding certain factors which could materially affect our business, operating results, cash flows and financial condition set forth under Item 1A, Risk Factors, in our Fiscal 2009 Form 10-K.

We do not believe that there have been any material additions or changes to the risk factors previously disclosed in our Fiscal 2009 Form 10-K, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

Item 6. Exhibits.

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

- (15) Letter Regarding Unaudited Interim Financial Information.
- (31.1) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- (31.2) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- (32.1) Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.

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SIGNATURE

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

AVIAT NETWORKS, INC.
(Registrant)

Date: May 12, 2010

By: /s/ J. Russell Mincey
J. Russell Mincey
Vice President, Corporate Controller and
Principal Accounting Officer
(principal accounting officer and duly authorized
officer)

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EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|--|
| (15) | Letter Regarding Unaudited Interim Financial Information. |
| (31.1) | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. |
| (31.2) | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. |
| (32.1) | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. |