

AVIAT NETWORKS, INC.
Form 10-Q
May 07, 2013

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 March 29, 2013

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
(State or other jurisdiction of
incorporation or organization)

20-5961564
(I.R.S. Employer
Identification No.)

5200 Great America Parkway
Santa Clara, California
(Address of principal executive offices)

95054
(Zip Code)

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

No changes
(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

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

The number of shares outstanding of the registrant's Common Stock as of April 30, 2013 was 61,242,098 shares.

AVIAT NETWORKS, INC.
FORM 10-Q
For the Quarterly Period Ended March 29, 2013
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AVIAT NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share amounts)	Quarter Ended		Three Quarters Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Revenues:				
Revenue from product sales	\$84.9	\$85.5	\$262.9	\$248.7
Revenue from services	33.4	26.1	99.4	79.3
Total revenues	118.3	111.6	362.3	328.0
Cost of revenues:				
Cost of product sales	61.7	57.0	188.6	170.4
Cost of services	22.5	20.3	67.2	58.7
Total cost of revenues	84.2	77.3	255.8	229.1
Gross margin	34.1	34.3	106.5	98.9
Operating expenses:				
Research and development expenses	9.9	8.9	29.0	26.7
Selling and administrative expenses	24.7	25.4	71.7	75.6
Amortization of identifiable intangible assets	0.1	0.1	0.3	1.5
Goodwill impairment charges	—	—	—	5.6
Restructuring charges	0.4	0.4	0.9	1.4
Total operating expenses	35.1	34.8	101.9	110.8
Operating income (loss)	(1.0)	(0.5)	4.6	(11.9)
Interest income	0.2	—	0.7	0.3
Interest expense	(0.2)	(0.2)	(0.7)	(1.0)
Income (loss) from continuing operations before income taxes	(1.0)	(0.7)	4.6	(12.6)
Provision for income taxes	0.6	0.1	12.0	1.9
Loss from continuing operations	(1.6)	(0.8)	(7.4)	(14.5)
Loss from discontinued operations, net of tax	(0.1)	(2.4)	(1.8)	(8.3)
Net loss	\$(1.7)	\$(3.2)	\$(9.2)	\$(22.8)
Basic and diluted loss per common share:				
Continuing operations	\$(0.03)	\$(0.01)	\$(0.12)	\$(0.25)
Discontinued operations	\$—	\$(0.04)	\$(0.03)	\$(0.14)
Net loss	\$(0.03)	\$(0.05)	\$(0.15)	\$(0.39)
Weighted average shares outstanding, basic and diluted	60.3	59.2	59.9	59.0

See accompanying Notes to Condensed Consolidated Financial Statements

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

(In millions)	Quarter Ended		Three Quarters Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Net loss	\$ (1.7	) \$ (3.2	) \$ (9.2	) \$ (22.8
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(0.3	) 1.2	0.6	(0.1
Change in unrealized gain or loss on hedging activities	0.2	(0.4	) 0.1	(0.1
	(0.1	) 0.8	0.7	(0.2
Comprehensive loss	\$ (1.8	) \$ (2.4	) \$ (8.5	) \$ (23.0

See accompanying Notes to Condensed Consolidated Financial Statements

AVIAT NETWORKS, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(In millions)	March 29, 2013	June 29, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$92.9	\$96.0
Receivables, net	80.0	90.7
Unbilled costs	27.5	25.9
Inventories	40.5	56.8
Customer service inventories	16.8	18.5
Deferred income taxes	1.0	1.0
Other current assets	18.1	15.7
Total current assets	276.8	304.6
Long-Term Assets		
Property, plant and equipment, net	25.3	21.7
Identifiable intangible assets, net	1.0	1.8
Deferred income taxes	0.4	0.4
Other assets	0.6	1.1
Total long-term assets	27.3	25.0
Total Assets	\$304.1	\$329.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	\$9.8	\$4.1
Accounts payable	40.8	55.8
Accrued compensation and benefits	10.7	11.9
Other accrued expenses	32.6	39.5
Advance payments and unearned income	34.5	41.3
Deferred income taxes	1.3	1.3
Restructuring liabilities	1.0	1.5
Total current liabilities	130.7	155.4
Long-Term Liabilities		
Long-term debt	—	8.8
Other long-term liabilities	2.5	2.8
Reserve for uncertain tax positions	16.0	4.2
Deferred income taxes	0.9	0.9
Total Liabilities	150.1	172.1
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Preferred stock	—	—
Common stock	0.6	0.6
Additional paid-in-capital	801.8	796.8
Accumulated deficit	(645.1	) (635.9
Accumulated other comprehensive loss	(3.3	) (4.0
Total Stockholders' Equity	154.0	157.5
Total Liabilities and Stockholders' Equity	\$304.1	\$329.6

See accompanying Notes to Condensed Consolidated Financial Statements

AVIAT NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Quarters Ended	
	March 29, 2013	March 30, 2012
Operating Activities		
Net loss	\$(9.2	) \$(22.8
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of identifiable intangible assets	0.8	2.0
Goodwill impairment charges	—	5.6
Depreciation and amortization of property, plant and equipment	4.2	3.5
Bad debt expenses	2.3	2.9
Share-based compensation expense	4.7	3.7
Charges for inventory write-downs	4.8	3.0
Loss (gain) on disposition of the WiMAX business	(0.1	) 1.9
Other non-cash items	(0.1) —
Changes in operating assets and liabilities:		
Receivables	8.5	23.4
Unbilled costs	(1.6	) (4.3
Inventories	12.1	(0.4
Customer service inventories	1.1	0.2
Accounts payable	(16.5	) (15.5
Accrued expenses	(4.8	) (2.7
Advance payments and unearned income	(6.7	) (3.4
Income taxes payable or receivable	(3.2	) 1.2
Reserve for uncertain tax positions and deferred taxes	11.9	—
Other assets and liabilities	(2.7	) 0.9
Net cash provided by (used in) operating activities	5.5	(0.8
Investing Activities		
Cash disbursed related to sale of WiMAX business, net	(0.1	) (1.1
Additions of property, plant and equipment	(5.9	) (4.4
Net cash used in investing activities	(6.0	) (5.5
Financing Activities		
Proceeds from long-term debt	—	8.3
Redemption of preference shares	—	(8.3
Payments on long-term debt	(3.1	) (0.4
Payments on capitalized leases	(0.1) —
Proceeds from share-based compensation awards	0.2	—
Net cash used in financing activities	(3.0	) (0.4
Effect of exchange rate changes on cash and cash equivalents	0.4	(1.0
Net Decrease in Cash and Cash Equivalents	(3.1	) (7.7
Cash and Cash Equivalents, Beginning of Period	96.0	98.2
Cash and Cash Equivalents, End of Period	\$92.9	\$90.5

See accompanying Notes to Condensed Consolidated Financial Statements

AVIAT NETWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. The Company and Basis of Presentation

The Company

Aviat Networks, Inc. (the "Company" or "we") designs, manufactures and sells 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 for fixed and mobile, point-to-point digital microwave radio systems for access, backhaul, trunking and license-exempt applications, supporting new network deployments, network expansion, and capacity upgrades.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by us in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, the statements do not include all information and footnotes required by U.S. GAAP for annual consolidated financial statements. 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 and three quarters ended March 29, 2013 (the "third quarter and first three quarters of fiscal 2013") are not necessarily indicative of the results that may be expected for the full fiscal year or future operating periods. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 29, 2012.

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

We operate on a 52-week or 53-week year ending on the Friday nearest June 30. The first three quarters of fiscal 2013 and 2012 included 13 weeks in each quarter.

Reclassifications

Certain amounts in the fiscal 2012 financial statements have been reclassified to conform to the fiscal 2013 presentation.

Use of estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires us to make estimates, assumptions and judgments affecting the amounts reported and related disclosures. Estimates are based upon historical factors, current circumstances and the experience and judgment of our management. We evaluate our estimates and assumptions on an ongoing basis and may employ outside experts to assist us in making these evaluations. Changes in such estimates, based on more accurate information, or different assumptions or conditions, may affect amounts reported in future periods. Such estimates affect significant items, including revenue recognition, provision for doubtful accounts, inventory valuation, valuation allowances for deferred tax assets, uncertainties in income taxes, restructuring obligations, product warranty obligations, share-based awards, contingencies and useful lives of property, plant and equipment.

Significant Accounting Policies

There have been no significant changes in our significant accounting policies as of and for the three quarters ended March 29, 2013, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended June 29, 2012.

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board issued an accounting standards update on reporting amounts reclassified out of accumulated other comprehensive income ("AOCI"), which requires companies to present information about reclassifications out of AOCI in one place. Companies also are required to present reclassifications by component when reporting changes in AOCI balances. For significant items reclassified out of AOCI to net income in their entirety in the period, companies must report the effect of the reclassifications on the respective line items in the statement where net income is presented. This information may be provided either in the notes or parenthetically on the face of that statement as long as all the information is disclosed in a single location. For items not reclassified to net income in their entirety in the period, companies must cross-reference in a note to other required disclosures. This new guidance is to be adopted prospectively and is effective for us beginning in our first quarter of fiscal 2014. The adoption of this new guidance will not impact our consolidated financial position or results of operations, as the guidance relates only to financial statement presentation.

Note 2. Accumulated Other Comprehensive Income (Loss)

The changes in components of our accumulated other comprehensive income (loss) during the first three quarters of fiscal 2013 are as follows:

	Foreign Currency Translation Adjustment ("CTA") (In millions)	Hedging Derivatives	Total Accumulated Other Comprehensive Income (Loss)
Balance as of June 29, 2012	\$(4.0	) \$—	\$(4.0)
Foreign currency translation gain	0.6	—	0.6
Net unrealized gain (loss) on hedging activities	—	0.1	0.1
Balance as of March 29, 2013	\$(3.4	) \$0.1	\$(3.3)

Note 3. Net Income (Loss) per Share of Common Stock

We compute net income (loss) per share of common stock using the two-class method. Basic net income (loss) per share is computed using the weighted average number of common shares and participating securities outstanding. Our unvested restricted shares (including restricted stock awards and performance share awards) contain rights to receive non-forfeitable dividends and therefore are considered to be participating securities and would be included in the calculations of net income per basic and diluted common share. However, we incurred a net loss in all periods presented and the undistributed losses were not allocated to unvested restricted shares. Therefore the unvested restricted shares were anti-dilutive and excluded from our diluted net loss calculations for the third quarter and first three quarters of fiscal 2013 and 2012.

The following potential weighted average shares of common stock outstanding have been excluded from the diluted net loss per share calculations, as their effect would have been anti-dilutive:

	Quarter Ended		Three Quarters Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(In millions)			
Options	4.2	5.4	4.9	4.7
Restricted stock	1.0	2.2	1.4	1.9
Total potential shares of common stock excluded	5.2	7.6	6.3	6.6

Note 4. Balance Sheet Components

Receivables

Our receivables are summarized below:

	March 29, 2013	June 29, 2012
	(In millions)	
Accounts receivable	\$92.9	\$105.8
Notes receivable due within one year	0.1	1.1
	93.0	106.9
Less allowances for collection losses	(13.0	) (16.2
	\$80.0	\$90.7

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

	Quarter Ended		Three Quarters Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(In millions)			
Customer letters of credit being discounted	\$13.2	\$13.7	\$31.5	\$33.8
Interest expense	\$—	\$0.1	\$0.2	\$0.2

Inventories

Our inventories are summarized below:

	March 29, 2013	June 29, 2012
	(In millions)	
Finished products	\$35.2	\$49.2
Work in process	4.7	6.9
Raw materials and supplies	0.6	0.7
	\$40.5	\$56.8
Deferred cost of sales included within finished goods	\$7.4	\$14.0

We write down for excess and obsolete inventory based on the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand forecasts, market and customer conditions and the exit of our WiMAX business. During the third quarter and first three quarters of fiscal 2013 and 2012, total inventory write-downs of our excess and obsolete inventory and customer service inventory were as follows:

	Quarter Ended		Three Quarters Ended		
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012	
	(In millions, except percentages)				
Excess and obsolete inventory charges	\$1.3	\$0.1	\$4.2	\$1.6	
Customer service inventory write-downs	0.2	0.3	0.6	1.4	
	\$1.5	\$0.4	\$4.8	\$3.0	
As % of revenue	1.3	% 0.4	% 1.3	% 0.9	%

Property, Plant and Equipment

Our property, plant and equipment are summarized below:

	March 29, 2013	June 29, 2012
	(In millions)	
Land	\$0.7	\$0.7
Buildings and leasehold improvements	10.6	10.7
Software	9.9	7.2
Machinery and equipment	48.7	45.0
	69.9	63.6
Less accumulated depreciation and amortization	(44.6	) (41.9
	\$25.3	\$21.7

Depreciation and amortization expense related to property, plant and equipment, including amortization of software developed for internal use, was \$1.3 million and \$1.4 million, respectively, for the third quarter of fiscal 2013 and 2012, and was \$4.2 million and \$3.5 million, respectively, for the first three quarters of fiscal 2013 and 2012.

Accrued Warranties

We have accrued for the estimated cost to repair or replace products under warranty at the time of sale. Changes in our warranty liability, which are included as a component of other accrued expenses on the consolidated balance sheets, during the first three quarters of fiscal 2013 and 2012 were as follows:

	Three Quarters Ended	
	March 29, 2013	March 30, 2012
	(In millions)	
Balance as of the beginning of the fiscal year	\$3.0	\$2.8
Warranty provision for revenue recorded during the period	2.4	3.0
Consumption during the period	(2.1	) (2.6
Balance as of the end of the period	\$3.3	\$3.2

Note 5. Fair Value Measurements of Assets and Liabilities

We determine fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal market (or most advantageous market, in the absence of a principal market) for the asset or liability in an orderly transaction between market participants as of the measurement date. We 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 inputs other than quoted prices included in Level 1 that reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- Level 3 — Unobservable inputs reflecting our own assumptions.

The carrying amounts, estimated fair values and valuation input levels of our assets and liabilities that are measured at fair value on a recurring basis as of March 29, 2013 and June 29, 2012 were as follows:

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	March 29, 2013		June 29, 2012		Valuation Inputs
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Assets:					