



AVIAT NETWORKS:

- **EARNINGS ARE OVERSTATED**
- **CASH FLOW IS INFLATED**
- **GROWTH IS BOUGHT**

NASDAQ:AVNW



GLASSHOUSE
RESEARCH

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\$22.61

SHORT INTEREST (% OF FLOAT)
5.2%

GlassHouse holds short positions in Aviat Networks, Inc. (NASDAQ:AVNW) and therefore stands to benefit if the share price declines. Please see the full disclaimer at the end of this report.

AVIAT NETWORKS (AVNW): A BACKLOG OF RED FLAGS

Aviat is a melting ice cube that is not generating earnings, rather it is borrowing them from its balance sheet. The company is recognizing revenue before it bills customers, struggling to collect cash, and delaying payments to suppliers — creating the illusion of growth and profitability.

- **Revenue is being pulled forward through aggressive accounting.** Unbilled receivables have surged ahead of revenue, indicating Aviat is booking sales based on internal estimates rather than completed work or customer payments. **We estimate this has added \$44.1 million in cosmetic TTM revenue gains (10% of revenue).**
- **A portion of these unbilled receivables is increasingly tied to high-risk customers in emerging markets.** Aviat generates significant revenue from telecom operators such as **MTN Group, which operates across Africa and the Middle East in countries with limited access to U.S. dollars and structural barriers to payment.** In this environment, revenue can be recognized well before it is billed or collectible, increasing the risk that reported sales do not convert into cash.
- **Inventory, prepaids, and accruals all point to the same conclusion: costs are being deferred:**
 1. Inventory levels imply an ~\$8.2 million excess build over the TTM relative to recent turnover
 2. Prepaid and contract manufacturing assets suggest ~\$5.3 million of deferred costs
 3. Accrued liabilities are ~\$4.8 million below normalized levels, indicating under-recognition of expenses
 4. Depreciation appears understated by approximately ~\$1.4 million due to extended useful lives and rising construction-in-progress balances
- **Cash flow is being artificially boosted by not paying suppliers.** Accounts payable have ballooned to abnormal levels, with **12M DPO reaching an all-time high of 172 days (vs. 88 day 10-year average).**
- **A key supplier is now taking Aviat to arbitration for non-payment.** NEC — Aviat's largest supplier and Pasolink counterparty — **is demanding payment of ~\$55 million of outstanding balances and committed purchases, a rare escalation that signals mounting liquidity pressure.**
- **Previous growth is not organic; it is driven by acquisitions masking a shrinking core business.** Excluding the Pasolink acquisition, we estimate Aviat's core sales are declining by a material amount in FY2025.
- **The stock is priced on cosmetic earnings that we believe will unwind.** Based on our findings GlassHouse sets a short-term target price of \$8.75, (representing ~60% downside) and eventually being a \$0 long-term.

Aviat Networks (AVNW) is marketed as a disciplined telecommunications infrastructure provider benefiting from long-term demand for wireless backhaul, private networks, and rural connectivity.

The underlying market structure tells a different story.

Microwave backhaul—the core of Aviat’s business—is a mature and increasingly displaced technology. Across developed markets, fiber has become the preferred solution for network transport due to its superior capacity, reliability, and long-term cost efficiency. Microwave remains relevant primarily in edge cases—rural deployments, difficult terrain, or interim buildouts—but these are structurally limited use cases, not growth markets.

The behavior of industry participants reinforces this reality. **In 2023, NEC—one of the largest global vendors of microwave equipment — effectively exited the business, selling its Pasolink division to Aviat.**

Aviat’s own performance is consistent with this dynamic. Even after acquiring Pasolink, pro forma disclosures show that the combined business declined since its acquisition, indicating that the acquisition added scale but not growth. More recent results show revenue contraction, with management attributing performance to “timing” and customer capex cycles — explanations commonly used in structurally declining markets.

In our view, this matters because it provides the economic backdrop for the company’s financial profile. ***As underlying demand becomes constrained, sustaining reported growth increasingly depends on acquisitions, working capital expansion, and accounting judgments rather than organic performance.***

Furthermore, when compared to its closest public competitor, Ceragon Networks (CRNT), Aviat’s financial profile diverges sharply.

Both companies operate in the same niche market of microwave wireless transport equipment, selling similar products to the same telecom operators around the world. However, Aviat reports materially higher levels of unbilled revenue, meaningfully longer receivable cycles, and structurally extended supplier payment periods relative to its peer. These differences are structural and will have long-lasting impacts.

“

Aviat’s Earnings are Overstated. Cash Flow is Inflated. And Growth Has Been Bought.

—GlassHouse Research

”

Since CEO Pete Smith joined in 2020, reported revenue has continued to increase, but this growth has been accompanied by a sustained expansion in contract assets, rising receivables, and increasingly extended supplier payment terms. At the same time, the company disclosed material weaknesses in internal controls over financial reporting tied directly to revenue recognition and project-based accounting.

Former finance leadership described a management culture heavily focused on delivering reported financial targets. **The former director noted that CEO Pete Smith “always hits the number,” reflecting a system where reported outcomes appear closely managed.**

Importantly, reported growth is largely acquisition-driven. Following the 2023 acquisition of NEC’s Pasolink business, Aviat reported higher revenue, but pro forma disclosures indicate that the underlying business has declined YOY across multiple periods.

At the same time, the Pasolink transaction introduced a structurally complex relationship with NEC, which remains both a critical supplier and transaction counterparty. This relationship has since deteriorated into arbitration, with NEC demanding payment of outstanding balances and committed purchases. This is a highly unusual development and suggests that supplier payment delays have extended beyond typical working capital management.

In our view, Aviat’s financial profile is best understood not as a growth story, but as a working capital-driven model that has increasingly relied on balance sheet expansion to sustain reported performance.

- **CEO Pete Smith Era:** Growth has been supported by aggressive M&A and revenue pull-forward dynamics rather than organic expansion
- **Africa & MTN Exposure:** Elevated customer risk, including exposure to constrained payment markets and a disproportionate share of unbilled receivables
- **NEC Arbitration:** A highly unusual dispute with Aviat’s largest supplier and counterparty, highlighting mounting payment pressure and liquidity strain
- **Governance Red Flags:** Significant leadership turnover, including five CFO changes, multiple auditor transitions, and broader instability in the finance function
- **Endgame / Catalyst:** Working capital levers are exhausted as debt obligations approach, forcing a reconciliation between reported earnings and cash reality

Exhibit 1: Aviat versus Ceragon

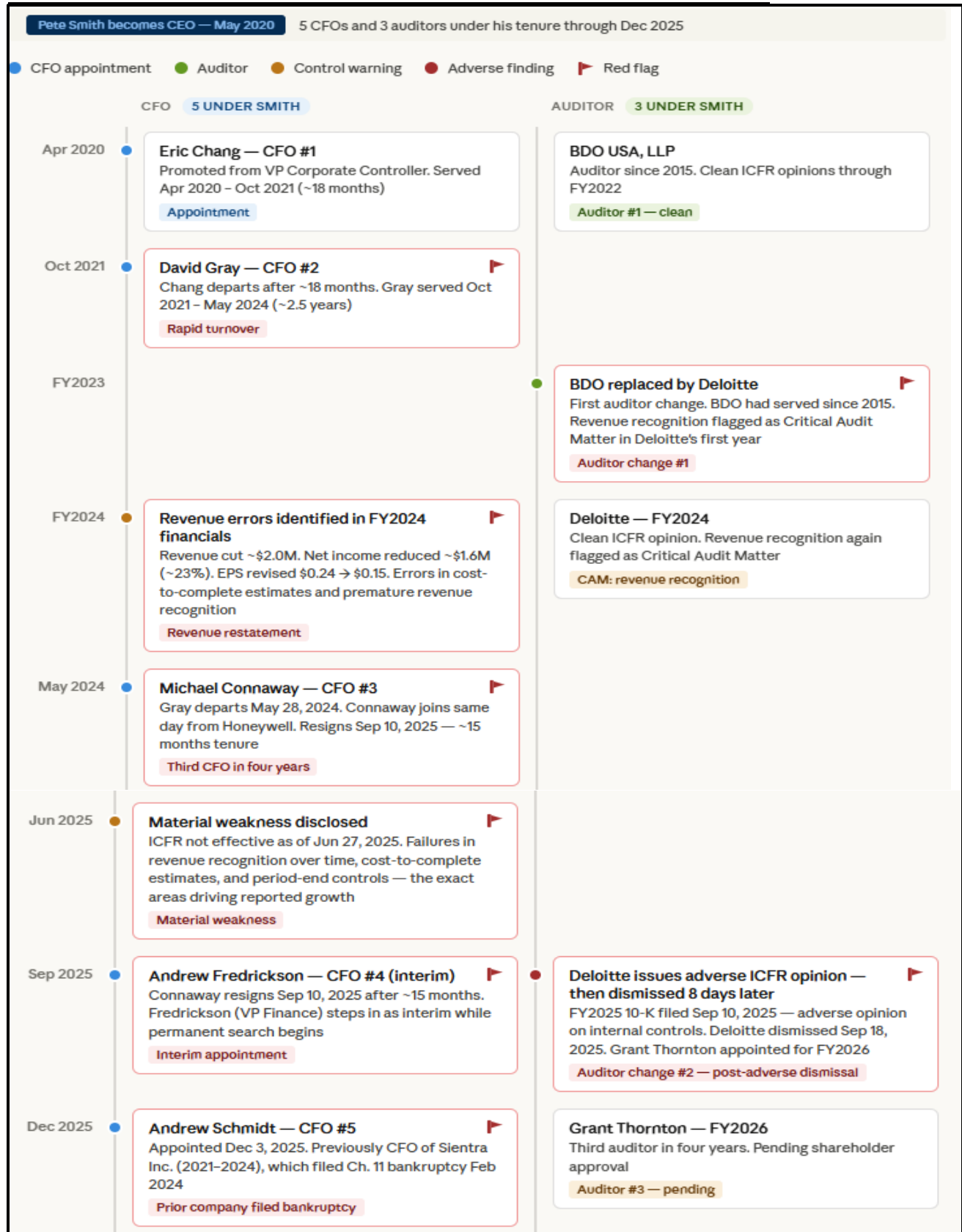
Aviat Networks vs. Ceragon — financial divergence		Same market, opposite balance sheet	
METRIC	AVIAT (AVNW)	CERAGON (CRNT)	COMMENTARY
CASH COLLECTION			
DSO (12M)	231 days ↑↑	134 days	AVNW at all-time high; CRNT within historical norms
Unbilled receivables	\$93.1M — 83.5% of QR sales	\$10.9M	AVNW ~8× higher; up ~200% since COVID
SUPPLIER PAYMENTS			
DPO (12M)	172 days ↑↑	131 days	AVNW all-time high — stretching suppliers to support cash flow
REVENUE RECOGNITION			
Bill-and-hold policy	Disclosed — SEC inquiry	Not used	No other identified peer discloses bill-and-hold as a policy
Revenue recognition risk	High — estimate-driven	Moderate	AVNW heavily reliant on over-time, judgment-based accounting
Working capital trend	Increasing materially	Stable	AVNW growth driven by balance sheet expansion, not operations
GOVERNANCE & CONTROLS			
Auditor opinion (ICFR)	Adverse	Unqualified (clean)	AVNW control failures tied directly to revenue recognition
Auditor turnover	Changed post-adverse opinion	Stable	Instability in financial oversight at a critical juncture
CFO changes (since 2020)	5 CFOs under CEO Smith	Stable leadership	Chang → Gray → Connaway → Fredrickson (interim) → Schmidt
MARKET PERFORMANCE (LTM)			
Stock price (LTM)	+19% — priced for growth	-12%	Bifurcated stock performance of direct peers in the same shrinking market

Even though Aviat and Ceragon operate in the same market, Aviat collects cash slower, recognizes more revenue before billing, and delays paying suppliers. These differences suggest its growth is being driven more by accounting and working capital than by underlying business performance.

Exhibit 2: Aviat and NEC Acquisition Timeline (discussed on Page 30)



Exhibit 3: CFO and Auditor Turnover Timeline Under CEO Pete Smith



Surge in Contract Assets Implies Premature Revenue Recognition (\$44.1 million or 10% of TTM sales)

Aviat Networks' contract assets (unbilled receivables) have expanded materially in recent years, raising concerns about the timing and quality of its reported revenue.

Contract assets represent revenue recognized before billing or cash collection, typically based on management estimates of project completion or contractual milestones. As a result, they are among the most subjective, and highest-risk, components of the balance sheet.

Sustained increases in unbilled receivables are often associated with premature revenue recognition, aggressive completion assumptions, or delays in billing milestones. **When contract assets grow faster than revenue, it can indicate that revenue is being recognized ahead of economic reality.**

At Aviat, the concern is twofold: whether these balances will ultimately convert into cash, and whether revenue is being recognized ahead of actual work completion or contractual billing thresholds.

Contract Assets Diverge Sharply from Revenue Trends

Since 2020, (1) Contract assets have increased ~200%, while (2) revenue has grown only ~90% during the same timeframe.

This gap indicates that a growing portion of revenue is being recognized ahead of billing and cash collection.

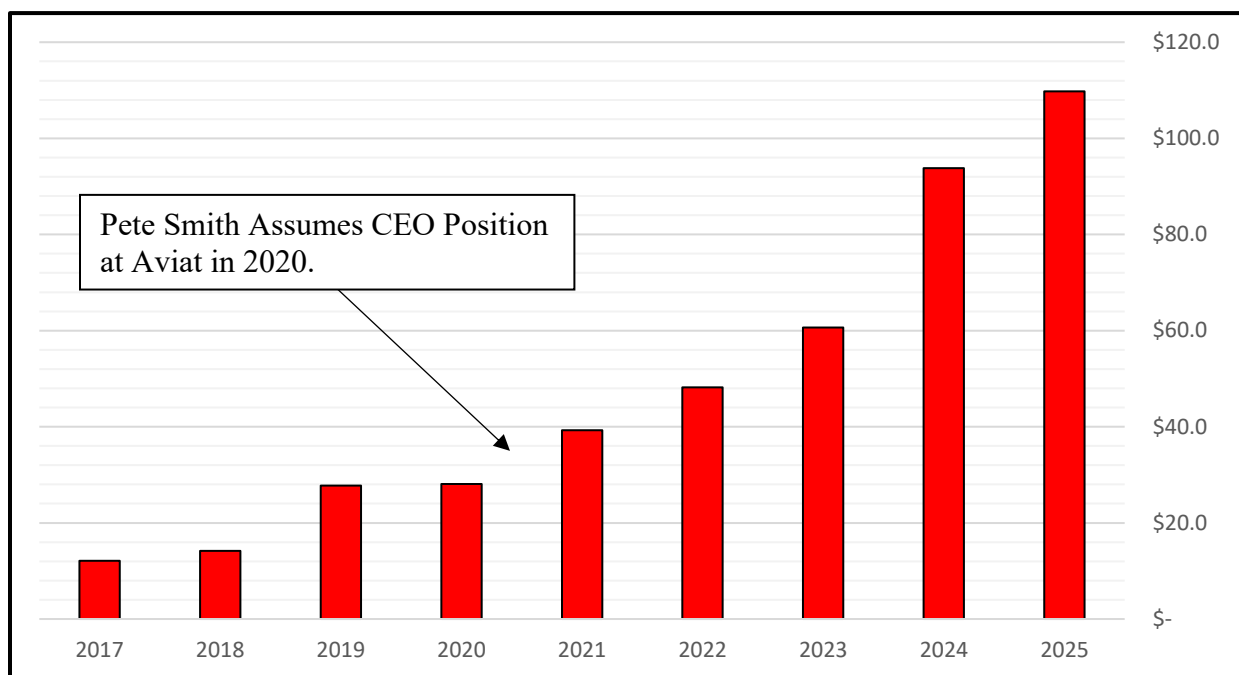
In a project-based model, this matters. Revenue depends on estimates of progress and cost-to-complete, giving management discretion over timing. When contract assets grow faster than revenue, it suggests revenue is being pulled forward.

This dynamic is reflected across Aviat's balance sheet. Contract assets now represent approximately 20.8% of trailing twelve-month revenue, while implied unbilled 12M DSO has increased 12.4% year-over-year to 85 days — both at historical highs.

The implication is straightforward: a growing share of Aviat's reported revenue has not been billed or collected. While this supports near-term results, it creates a future headwind as these balances must ultimately convert to cash—or be written down.

If revenue were recognized in line with project completion and billing milestones, contract assets would be expected to normalize over time. Instead, Aviat's balance has continued to expand across multiple periods, suggesting this is not a timing issue but a recurring mechanism supporting reported growth.

Chart 1: Long-Term Unbilled Receivables Trends
(\$ in millions)



As discussed later on, management claims AVNW's contract assets are being offset by its contract liabilities. However, as shown on Chart 4, Page 19, our analysis portrays a contradictory story.

Receivables Expansion Suggests a Pull-Forward of \$44.1 million in TTM Revenue

This pattern extends beyond unbilled receivables. Billed accounts receivable have also expanded, reinforcing the disconnect between reported revenue and cash realization.

At the end of Q2 2026, Aviat's total receivables (inclusive of both billed and unbilled balances) have expanded to approximately \$293.7 million, representing a 12.7% increase YOY. This sharply diverges from 3M revenue decline of 5.7% over the same period, indicating that a growing portion of sales is not converting into cash (see Table 1, below).

Collection metrics have deteriorated materially. Twelve-month DSO¹ increased 13.0% year-over-year to 231 days, representing an all-time high. While receivables as a percentage of TTM revenue rose 573 basis points to 65.7%. Total receivables now represent approximately 263.5% of quarterly sales, well above historical norms.

Importantly, this is no longer limited to unbilled balances. Even billed receivables are taking longer to collect, suggesting the issue extends beyond revenue timing into underlying collectability.

To quantify the overall impact, we normalized Aviat's receivables to historical collection levels. Based on this analysis, we estimate that approximately \$44.1 million (or ~10%) of revenue has been effectively pulled forward over the trailing twelve months.² In other words, if Aviat had maintained prior collection dynamics, reported revenue would have been approximately \$44.1 million lower.

- Reported TTM Revenue: \$446.8 million
- Sell-Side TTM Revenue Est.: \$431.8 million (beat every quarter)
- GlassHouse TTM Revenue Estimate: \$402.7 million

This adjustment represents a material portion of reported growth and suggests that recent performance has been supported by working capital expansion rather than underlying demand. In practical terms, Aviat is recognizing revenue faster than it is collecting cash.

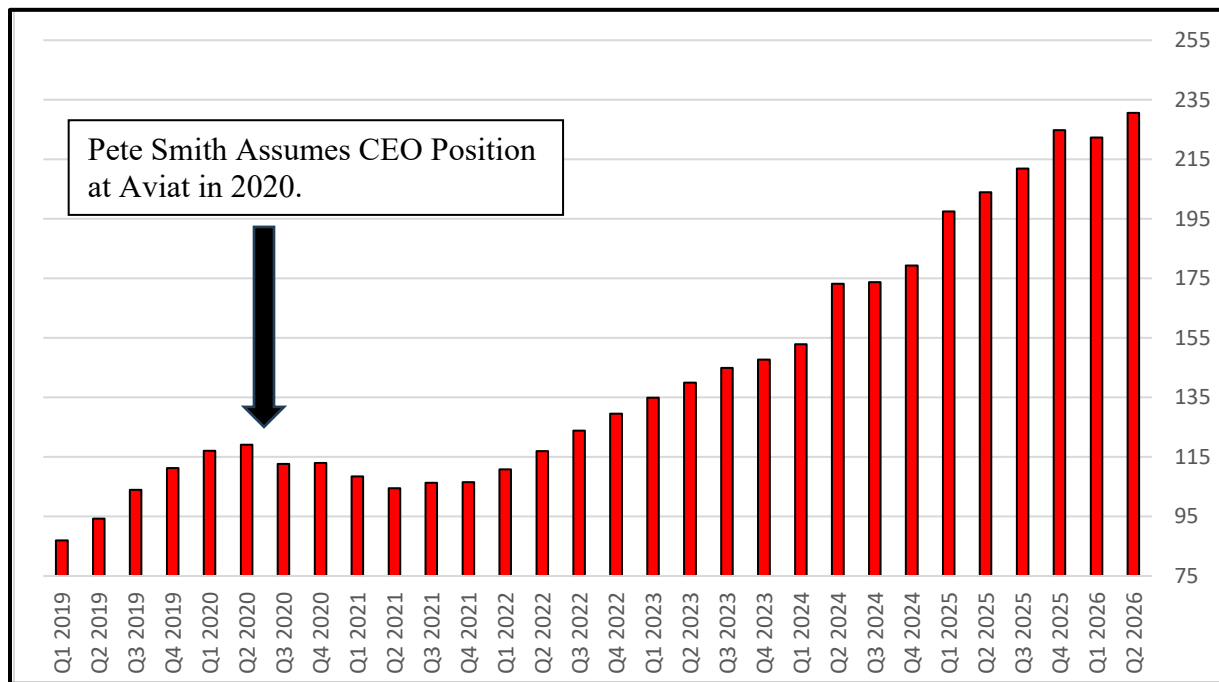
¹ Twelve-month days sales outstanding (12M DSO) = Average receivables (last 5 quarters) / 12M Sales * 365.

² We normalize the AR amount to \$249.7 million by using last year's 12 DSO value of 204 days relative to \$446.8 million in TTM sales. This compares to \$293.7 million currently implying \$44.1 million of artificial gains.

Table 1: Total Receivables Metrics
(\$ in millions)

Period Ended:	Q2 2026	Q1 2026	Q4 2025	Q3 2025	Q2 2025
Total Receivables (AR)	\$293.7	\$291.1	\$286.2	\$279.4	\$260.5
AR-to-3M Sales	263.5%	271.3%	248.1%	248.1%	220.4%
AR-to-12M Sales	65.7%	64.2%	65.9%	64.1%	60.0%
3M DSO	239	245	224	219	202
12M DSO	231	222	225	212	204
<u>YOY</u>					
Total Receivables	12.7%	10.4%	15.1%	31.2%	14.7%
AR-to-3M Sales (bps)	4,307	(2,695)	3,508	5,587	(2,195)
AR-to-12M Sales (bps)	573	(19)	495	811	(430)
3M DSO	18.3%	-7.1%	24.0%	20.7%	8.6%
12M DSO	13.0%	12.6%	25.4%	22.0%	17.8%

Chart 2: Long-Term 12M DSO Trend



Net Contract Assets Still Indicate Revenue Pull-Forward

The distortion is not limited to gross contract assets. Even after accounting for contract liabilities, Aviat's net contract asset position continues to expand — indicating that revenue is still being recognized ahead of billing and cash collection.

As of the most recent quarter, net contract assets (contract assets less contract liabilities) increased approximately 10% YOY to \$203.2 million, remaining near the all-time high of \$211.1 million reached in the prior quarter. This sustained elevation suggests that the buildup is not temporary, but structural.

To assess the impact, we normalize net contract assets using Aviat's 12M trailing DSO. **Based on this approach, we estimate that approximately \$21.1 million of revenue has been pulled forward through net contract asset expansion alone.**³

Bill-and-Hold Accounting: Revenue Recognized Before Delivery

Aviat explicitly discloses the use of bill-and-hold arrangements, under which it recognizes revenue before products are delivered or installed. The company states that in certain cases, "control has been transferred to the customer, while we retain physical possession of the product... until it is installed at a customer site at a point in time in the future."

Bill-and-Hold Sales

Certain customer arrangements consist of bill-and-hold characteristics under which control has been transferred to the customer, while we retain physical possession of the product. We evaluate bill-and-hold arrangement criteria to determine when the customer has obtained control. Once control has been obtained by the customer, they can direct or determine the use of the bill-and-hold inventory while we retain physical possession of the product until it is installed at a customer site at a point in time in the future.

In plain terms, Aviat is booking revenue while still holding the inventory. While permitted under ASC 606, **bill-and-hold accounting is one of the most judgment-intensive forms of revenue recognition.** It requires management to conclude that control has transferred despite no physical delivery, based on internal assessments rather than observable events. Aviat's own disclosure reflects this subjectivity, noting that it "evaluates... criteria to determine when the customer has obtained control."

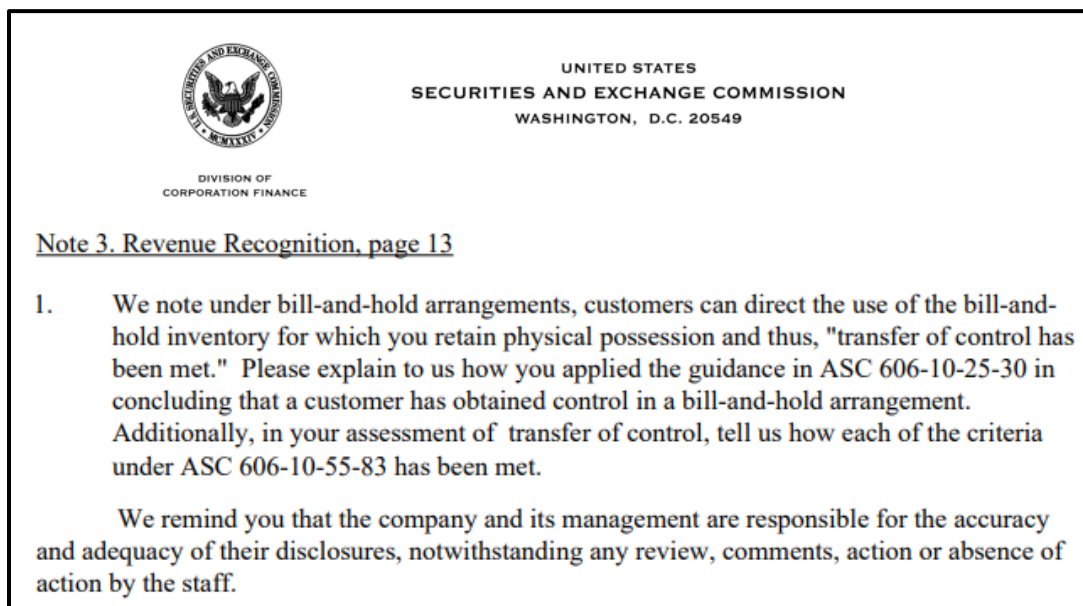
³ We normalize the net AR amount to \$182.1 million by using last year's 12M net contract asset DSO value of 149 days relative to \$446.8 million in TTM sales. This compares to \$203.2 million currently implying \$21.1 million of artificial gains.

This matters because it creates a structural disconnect between revenue and cash. Under bill-and-hold arrangements:

- Revenue can be recognized before billing, delivery, or installation
- Inventory may be taken off Aviat's balance sheet despite being recorded as a sale and remaining in Aviat's warehouse
- Cash collection is deferred, increasing reliance on receivables

Aviat's use of bill-and-hold accounting has also been subject to SEC scrutiny. In a 2019 comment letter, the SEC requested that the company explain how it concluded that "control has been transferred" in bill-and-hold arrangements despite retaining physical possession of the inventory.

In its response, Aviat acknowledged that physical possession remained with the company and that revenue recognition depended on its assessment of control transfer based on contractual terms and customer direction. Notably, the company stated that physical possession was the primary indicator that did not support control transfer. In other words, revenue is recognized even though the product has not been delivered.



Bill-and-hold accounting has a well-documented history of abuse. While technically permissible, it has repeatedly been used to accelerate revenue recognition ahead of delivery and inflate reported earnings.

In Aviat's case, the risk is not theoretical. The company's use of bill-and-hold aligns with a broader pattern of expanding contract assets, rising receivables, and deteriorating cash conversion. These trends suggest that revenue is being recognized ahead of billing and collection, consistent with the mechanics of bill-and-hold accounting.

MTN Exposure: Revenue Persistence Risk and Structural Barriers to Cash Collection

Aviat's receivables profile is not solely a function of accounting, it is also driven by the nature of its customers. This is most evident in its exposure to telecom operators across Africa and the Middle East, including MTN Group, one of its largest and most complex counterparties.

MTN operates across emerging markets such as **Nigeria, Ghana, Uganda, and Sudan**—regions characterized by constrained access to U.S. dollars, regulatory friction, and reliance on central bank approval for currency conversion. These structural factors can significantly delay cross-border payments.

This dynamic has direct implications for Aviat. Under its percentage-of-completion model, revenue is recognized based on estimated project progress, often well in advance of billing or cash collection. When paired with customers operating in FX-constrained environments, this creates a fundamental mismatch between reported revenue and cash realization.

MTN has historically been one of Aviat's largest customers:

- 25% of revenue in 2013
- 17% in 2014
- 14% in 2015 and 2017
- 13% in 2018
- 11% in 2019
- Last disclosed above 10% in 3Q FY2023

More importantly, MTN has consistently represented a larger share of receivables than revenue.

- FY2023: ~12–13% of revenue
- And ~16–17% of accounts receivable

MTN Group is a high-risk customer that has had numerous issues, ranging from bribery charges, frozen assets in Iran, collapse in the Nigerian currency, and five active Anti-Terrorism Act (ATA) cases in US courts, with a new US investigation announced August 2025. In fact, the SEC has required AVNW to disclose the risks related to its relationship with MTN Group and its business dealings in Iran in a previous correspondence filing.⁴

Former finance leadership described instances where telecom customers were unable to remit payment due to a lack of U.S. dollar liquidity within local banking systems.

⁴ March 15th, 2013 correspondence filing with SEC

“ I spent three months in South Africa to fix issues ... And when I left, I had a long list with potential issues that if we don't fix them, we could be in trouble being a public company. ”

Exhibit 4: MTN Operating Countries



MTN's exposure to jurisdictions such as Iran further amplifies this risk. The company maintains a stake in MTN Irancell, introducing additional regulatory and compliance complexity. While MTN disputes related allegations, counterparties operating in such environments may face restrictions on cross-border transfers, extended approval processes, and heightened scrutiny from financial institutions. Management has admitted that international customers, specifically customers in Africa, have longer payment terms and are the driver of receivables growth.

During the February 2022 call ex-CFO David Gray stated that **“international [revenue] typically has longer payment terms than North American customers”** and ex-CFO David Gray later stated on the May 2022 call that receivables were rising because of **“growth in international regions, specifically Africa ... where longer payment terms are full”** (Emphasis added).

CEO Pete Smith further explained on the February 2025 call that customers in **Africa (i.e. MTN Group) are struggling to pay their receivables:**

“ Yes. I would say we still see some weakness in Africa, and that's largely driven by currencies and their ability to pay. And with the interest rates on the dollar and the euro being elevated, I would say that Africa will remain at that level for the foreseeable future. ”

Exhibit 5: MTN Group AR
(\$ in thousands)

MTN Group AR	FY2025	FY2024	FY2023	FY2022	FY2021
MTN Group % of Sales	7%	8%	9%	9%	9%
MTN Group receivables	8%	9%	14%	17%	14%
MTN Sales	25,703	25,420	30,999	27,266	24,742
MTN AR	22,000	22,000	22,434	20,234	11,992
MTN Group DSO	312	315	263	270	176
Africa and the Middle East Revenue	49,428	48,884	59,674	47,527	44,023
	52%	52%	52%	57%	56%

*MTN Group was listed as a 10% revenue customer in 3Q23 and 3Q22 YTD which supports our assumption for ~9% revenue for the year and note a lower revenue mix implies a higher DSO

Remaining Performance Obligations: Backlog Does Not Support Growth

Aviat’s Remaining Performance Obligations (RPO), a proxy for contracted future revenue, have declined despite reported revenue growth.

RPO decreased from \$158.5 million in Q4 2024 to \$135.3 million in Q2 2026, a ~15% decline. Over the same period, reported revenue increased, creating a clear disconnect between current performance and future contracted demand. Thus:

- Revenue is being recognized today
- But future revenue visibility is declining

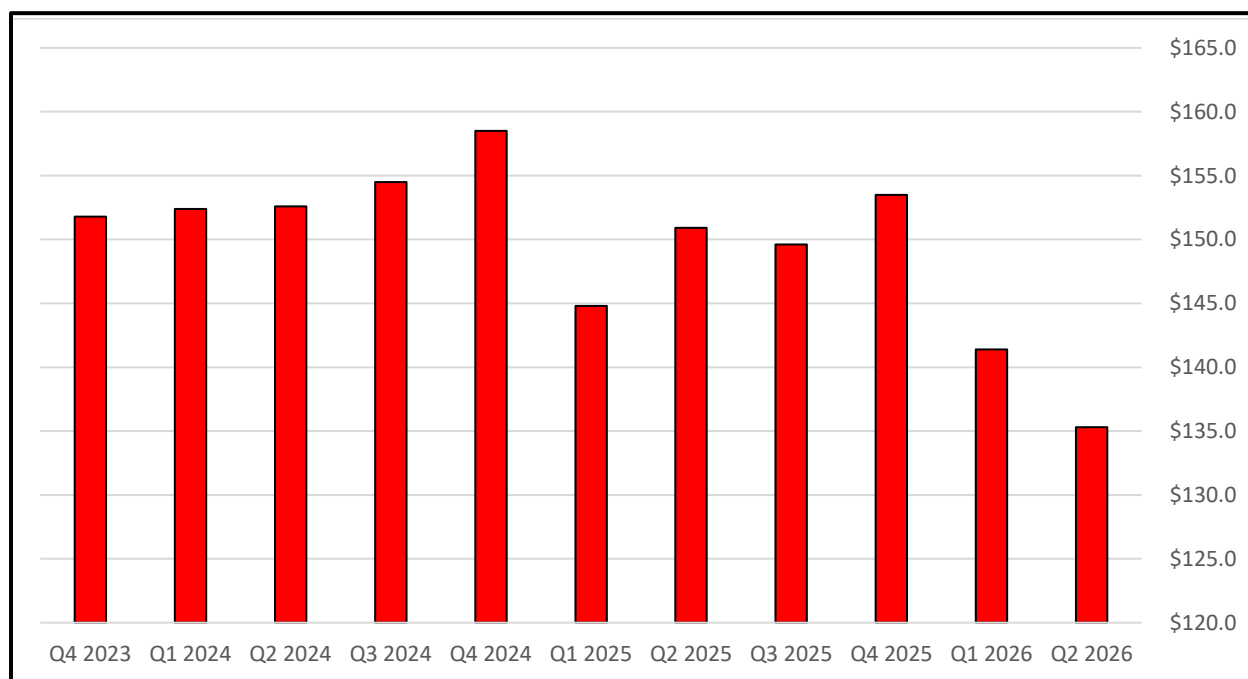
While management has touted the “highest level of second quarter bookings in over a decade” statement in the latest Q2 earnings release⁵, the decline in RPOs is more telling as it reflects signed and enforceable obligations.

Specifically, with RPOs declining 10.3% YOY in Q2 2026, the sharpest decline on record and marking the sixth consecutive quarter of YOY decline. This is not consistent with a growing business.

Management was asked to disclose their backlog on their most recent Q2 2026 Conference Call and management refused, despite disclosing the metric on prior Q2 calls. CEO Pete Smith explained that **“because of the project nature of [our] business, we are reluctant to be as specific as you would like”**.

Importantly, the composition of RPO has remained stable, with approximately 50% expected to be recognized within the next 12 months. This indicates the decline is not driven by timing shifts, but by a reduction in overall contracted volume.

Chart 3: Remaining Performance Obligation (RPO) Trends (\$ in millions)



⁵ <https://investors.aviatnetworks.com/news-releases/news-release-details/aviat-networks-announces-fiscal-2026-second-quarter-and-six>

Management's Explanations Do Not Reconcile with the Balance Sheet

With Aviat's unbilled receivables balance expanding sharply over the last several years, management has offered a series of explanations across filings and earnings calls. However, these explanations fail to reconcile with the company's actual balance sheet trends.

In the fiscal 2023 10K, Aviat attributed the increase to **"large North American over time projects and International projects that carry notably longer payment terms."** While more specific than later disclosures, this explanation did not identify which projects drove the increase, how much of the balance was attributable to them, or why the effect persisted and intensified in subsequent periods.

By fiscal 2024 and 2025, the explanation became more generalized. The company attributed changes in contract balances to standard revenue recognition mechanics, including **"recognition over time," "transfer of control," and "periodic payments."** The most recent 10Q repeats similar language. As the balance continued to grow, the explanation became less specific, not more.

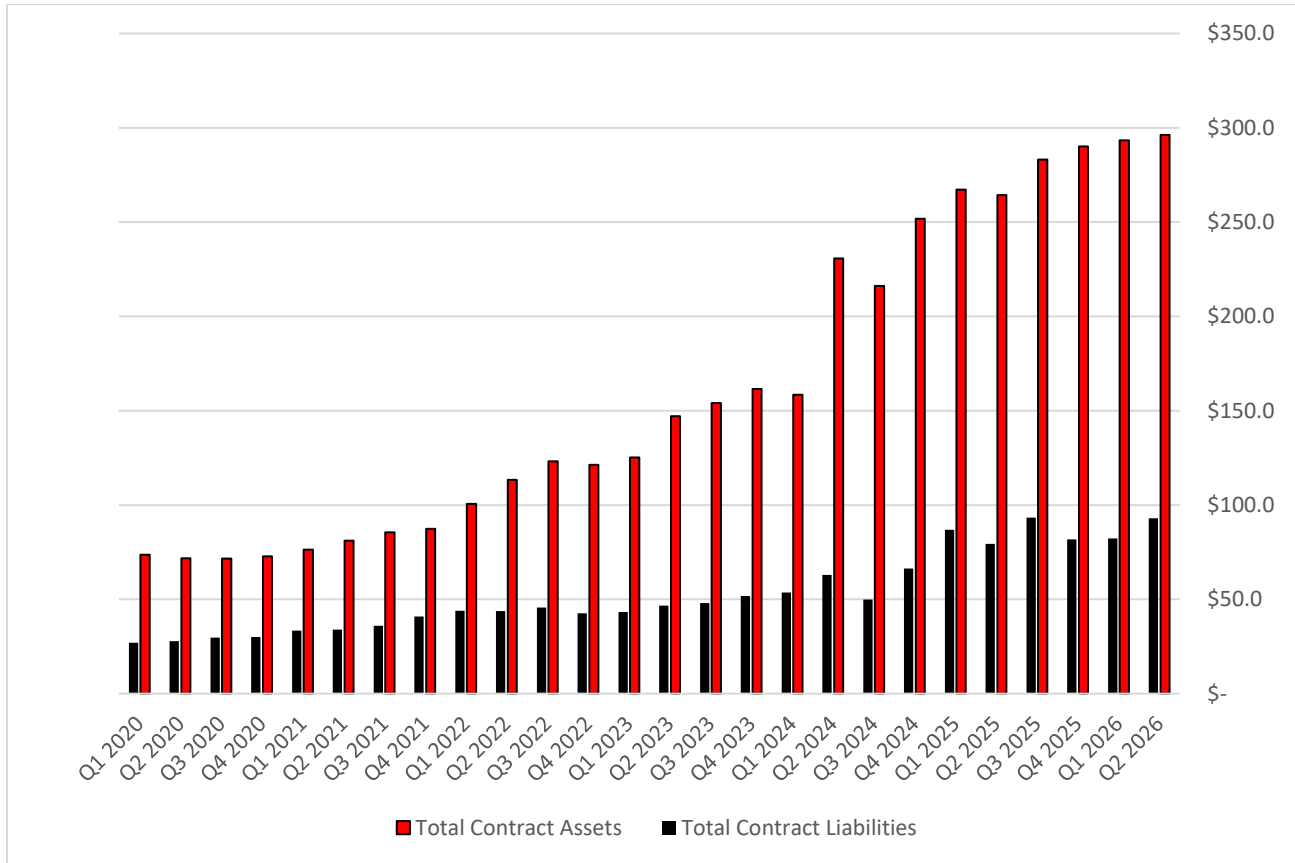
Management addressed the issue more directly on its November 2025 special call. Interim CFO Andrew Fredrickson **described unbilled receivables as "a natural part of our project-based business" and "kind of the flip side" of unearned revenue.** He further stated that the company was working to "unlock that line item to convert to future cash," and that these balances should "move closer to offsetting each other over time."

Management's characterization of unbilled receivables as a temporary timing dynamic is also contradicted by its own disclosures. The company acknowledges that **"the timing and amount of revenue... may remain difficult to predict" and that project timelines "may extend over more than one period,"** complicating revenue recognition. More recently, Aviat disclosed that **"significant changes in contract balances may arise" from revenue recognized over time and that the "timeframe to completion... can shift".⁶**

These are not descriptions of a stable, self-correcting timing difference—they are admissions that revenue recognition is inherently dependent on estimates, subject to change, and structurally difficult to forecast.

⁶ From 2025 10K and Q2 2026 10Q.

Chart 4: Contract Assets versus Contract Liabilities
(\$ in millions)



If unbilled receivables were simply the timing counterpart to customer advances, the two balances would move together. They do not.

Unbilled receivables increased from \$60.7 million in fiscal 2023 to \$93.8 million in fiscal 2024 and \$109.8 million in fiscal 2025, while contract liabilities grew only modestly over the same period. As of the most recent quarter, unbilled receivables remain significantly larger than contract liabilities — contradicting management’s characterization of these balances as a “flip side.”

Management has consistently framed this as a timing issue that will normalize as projects progress and cash is collected. That normalization has not occurred. The same explanation has been repeated across multiple periods while the balance continues to expand.

Inventory Build Suggests Demand Mismatch and Excess Production

Aviat's inventory trends suggest production is outpacing underlying demand. Inventory has increased from \$62.3 million in Q4 2024 to \$76.6 million in Q2 2026, even as near-term revenue has begun to slow.

In the most recent quarter, 3M revenue declined 5.7% YOY, yet inventory remained elevated — indicating that product is accumulating rather than being sold through (see Table 2, below).

Management has acknowledged this buildup, noting that it “ramped up inventory purchases,” suggesting supply decisions have been made ahead of realized demand.

This imbalance is reflected in turnover metrics. Inventory-to-quarterly sales has reached 105%, well above the historical average of ~63.5% for Q2s, while trailing 12M DSI has increased to 102 days from ~66 days historically.⁷ Therefore, inventory is taking longer to convert into revenue.

To quantify the impact, we normalize Aviat's inventory using its historical turnover profile:

- Expected inventory (normalized): ~\$68.4 million
- Reported inventory: ~\$76.6 million
- **Excess build: ~\$8.2 million⁸**

The inventory build red flag is even more pronounced when we take into account Aviat's refusal to purchase NEC's inventory (\$19.0 million) and then steep decline in purchase obligations. Currently the company reports \$40.7 million in purchase obligations (down 32.8% YOY) coming off of a recent high of \$83.7 million in Q4 2024.

Therefore, Aviat is not only carrying excess inventory, but the company is also doing everything they can in order to stop supplier purchases. If demand does not materialize as expected, this creates risk of discounting, slower growth, or inventory write-downs.

In simple terms, production is running ahead of demand.

⁷ Twelve-month days sales inventory (12M DSI) = Average inventory (last 5 quarters) / 12M COGS * 365.

⁸ We normalize inventory to the amount \$68.4 million by using last year's 12M DSI value of 84 days relative to \$296.2 million in TTM COGS. This compares to \$76.6 million in inventory implying \$8.2 million of artificial gains.

Table 2: Inventory Metrics
(\$ in millions)

Period Ended:	Q2 2026	Q1 2026	Q4 2025	Q3 2025	Q2 2025
Total Inventory	\$76.6	\$84.0	\$84.0	\$93.2	\$76.5
Inv-to-3M Sales	68.8%	78.3%	72.8%	82.7%	64.7%
Inv-to-12M Sales	17.2%	18.5%	19.3%	21.4%	17.6%
3M DSI	97	107	107	106	92
12M DSI	102	102	98	91	84
Purchase Obligations	\$40.7	\$46.6	\$48.1	\$45.0	\$60.6
<u>YOY</u>					
Total Inventory	0.2%	5.6%	34.9%	64.0%	14.5%
Inv-to-3M Sales (bps)	403	(1,169)	1,944	3,144	(656)
Inv-to-12M Sales (bps)	(47)	(90)	406	644	(129)
3M DSI	5.6%	13.5%	48.1%	39.9%	18.8%
12M DSI	21.2%	30.6%	41.2%	34.4%	24.3%
Purchase Obligations	-32.8%	-35.3%	-42.5%	-15.9%	65.1%

Prepays & Contract Manufacturing: Costs Are Being Pushed Out

In addition to recognizing revenue ahead of cash, Aviat appears to be deferring costs through balance sheet accounts.

Prepays and related assets have increased to approximately \$37.0 million, even as operating expenses declined 8.6% YOY. These balances now represent roughly 129% of quarterly operating expenses, compared to a historical average closer to ~85%.

This divergence suggests that costs are not flowing through the income statement at the same rate they are being incurred.

The composition of these balances reinforces this dynamic. Contract manufacturing assets have nearly doubled in recent periods, indicating that production-related costs are increasingly being held on the balance sheet before being recognized as expense.

Aviat's own disclosures highlight the flexibility in timing. The company notes that contract balances can fluctuate due to "recognition over time... and periodic payments," and that project timelines "can shift."

These statements indicate that both revenue and cost recognition depend heavily on estimates, rather than fixed economic events.

To quantify the impact, we normalize these balances relative to historical relationships:

- Normalized prepaid level: ~\$31.7 million
- Reported level: ~\$37.0 million
- **Estimated cost deferral: ~\$5.3 million⁹**

While smaller than the inventory and receivables adjustments, this still represents 16.2% of operating profit.

The takeaway is clear. By holding costs on the balance sheet, Aviat is able to report higher margins in the current period, with the offset deferred into future periods.

Table 3: Prepaid and Other Current Asset Metrics
(\$ in millions)

Period Ended:	Q2 2026	Q1 2026	Q4 2025	Q3 2025	Q2 2025
Prepays and OCAs	\$37.0	\$34.6	\$33.7	\$34.6	\$33.3
OCA-to-3M OpEx	128.6%	113.4%	118.0%	115.9%	105.7%
OCA-to-12M OpEx	31.5%	28.7%	26.9%	28.2%	26.9%
<u>YOY</u>					
Prepays and OCAs	11.2%	4.9%	24.5%	12.5%	22.5%
OCA-to-3M OpEx (bps)	2,290	2,021	1,325	1,625	1,784
OCA-to-12M OpEx (bps)	452	192	301	118	111

⁹ We normalize prepaids to the amount \$31.7 million by using last year's 12M prepaids-to-OpEx value of 26.9% relative to the current \$117.7 million of operating expenses. This compares to \$37.0 million of prepaids currently implying \$5.3 million of artificial gains.

Accrued Liabilities: Expenses Are Not Keeping Pace

Aviat's accrued liabilities suggest that expenses are not being recognized in line with underlying business activity.

Accrued expenses have declined from \$42.4 million in Q4 2024 to \$31.6 million in Q2 2026, despite the company operating at higher revenue levels over the same period. In a normal environment, accrued costs—such as compensation, project costs, and professional fees—should scale with activity, not contract.

This decline is particularly notable in key categories:

- **Project costs** fell from \$14.6M to \$0.4 million
- **Professional fees** declined from \$4.6 million to \$0.9 million
- Total accrued expenses decreased even as the business expanded

At the same time, other balance sheet accounts have moved in the opposite direction:

- Receivables have increased materially
- Inventory has expanded
- Prepaids and contract manufacturing assets have grown

Taken together, costs appear to be lagging activity while assets continue to build.

Relative to operating expenses, accrued liabilities have also compressed. Accruals now represent approximately 26.8% of trailing operating expenses, down from ~37.5% in prior periods — indicating a structurally lower level of recognized liabilities.

To quantify the impact, we normalize accruals using historical relationships:

- Expected accruals: ~\$36.4 million
- Reported accruals: ~\$31.6 million
- **Estimated shortfall: ~\$4.8 million¹⁰**

This gap represents approximately 14.6% of trailing operating profit. Thus, expenses that would typically be accrued and recognized in the current period are not fully reflected in the income statement, inflating reported earnings.

¹⁰ We normalize accrued expenses to the amount \$36.4 million by using last year's 12M AE-to-OpEx value of 30.9% relative to the current \$117.7 million of operating expenses. This compares to \$31.6 million of AE currently implying \$4.8 million of artificial gains.

Here we observe that Aviat is not only delaying costs — it appears to be under-recording them.

Table 4: Accrued Expenses Metrics
(\$ in millions)

Period Ended:	Q2 2026	Q1 2026	Q4 2025	Q3 2025	Q2 2025
Accrued Expenses	\$31.6	\$35.8	\$38.6	\$40.5	\$38.2
AE-to-3M OpEx	109.6%	117.6%	135.2%	135.9%	121.1%
AE-to-12M OpEx	26.8%	29.8%	30.8%	33.1%	30.9%
YOY(\$ in millions)					
Accrued Expenses	-17.3%	-8.5%	-9.0%	5.2%	13.2%
AE-to-3M OpEx (bps)	(1,154)	687	(2,904)	1,090	1,217
AE-to-12M OpEx (bps)	(407)	(206)	(664)	(83)	(117)

Depreciation: Useful Life Assumptions Suppress Expense

Aviat's depreciation trends suggest that a portion of expenses is being reduced through changes in asset assumptions and asset classification.

While gross PPE has steadily increased—from \$74.9 million in Q4 2024 to \$86.0 million in Q2 2026 — depreciation expense has not kept pace. Over the same period, trailing 12M depreciation has declined from ~\$5.3 million to ~\$3.9 million. At the same time, implied asset useful lives have increased:

- 12M useful life of PPE has expanded to ~21.3 years
- Prior levels were closer to ~14–18 years
- Assets are being depreciated more slowly over time

Aviat has also increased its use of construction-in-progress (CIP), which has grown from ~\$4.1 million to \$12.3 million over the same period.

This is important because **assets classified as CIP are not depreciated.**

- Depreciation only begins once assets are placed into service
- Until then, costs remain on the balance sheet with **no income statement impact**
- Larger CIP balances effectively **delay expense recognition**

Holding a higher proportion of assets in CIP allows the company to defer depreciation expense into future periods, even though the economic investment has already been made.

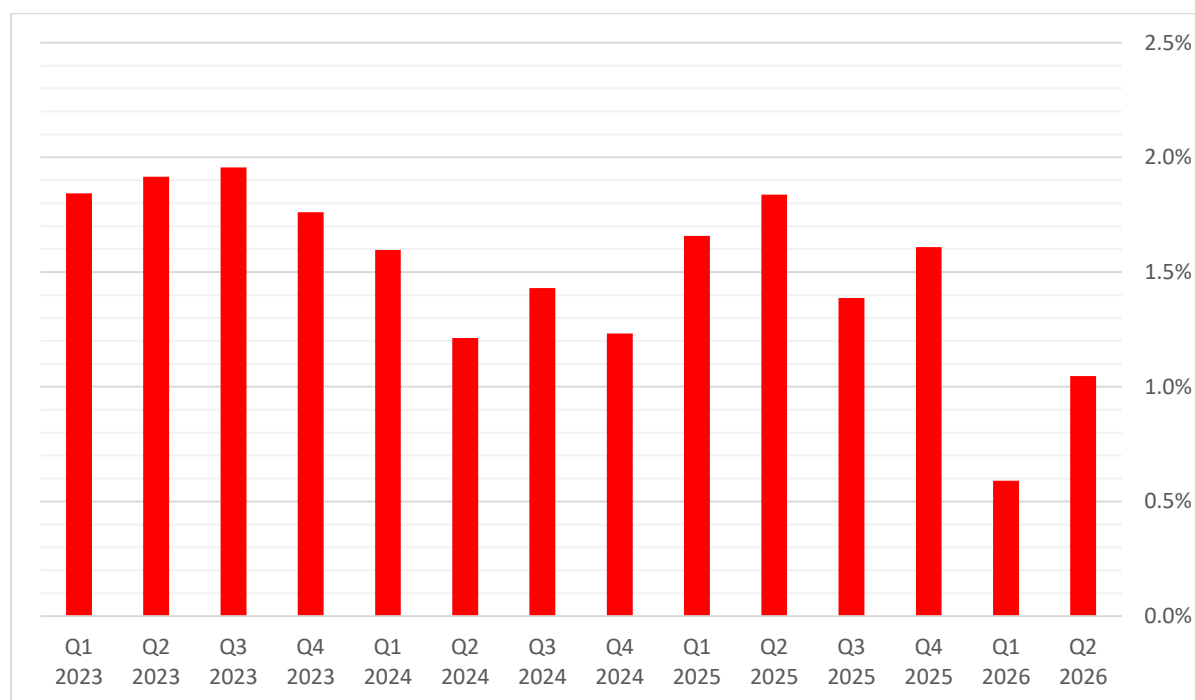
To quantify the impact, we normalize depreciation using prior-period useful life assumptions:

- Expected depreciation: ~\$5.3 million
- Reported depreciation: ~\$3.9 million
- **Estimated shortfall: ~\$1.4 million¹¹**

This represents approximately 4.2% of trailing operating profit. By both extending useful lives and maintaining elevated CIP balances, Aviat is reducing current-period depreciation expense and increasing reported earnings.

In practical terms, a portion of operating cost is being delayed through accounting treatment rather than underlying economics.

Chart 5: Three-Month Depreciation Expense-to-Gross PPE Ratio



¹¹ We normalize depreciation to the amount \$5.3 million by using last year’s 12M useful life value of 16.1 years relative to the current \$86.0 million of gross PPE. This compares to \$3.9 million of depreciation currently implying \$1.4 million of artificial gains.

Sustainable Earnings: Reported Profitability Masks Underlying Losses

We estimate Aviat's sustainable operating income is materially lower than reported—and potentially negative once adjusting for working capital and accounting distortions.

While Aviat reported trailing twelve-month operating income of \$32.9 million, our analysis suggests this figure materially overstates the company's true earning power.

As detailed throughout the first section, multiple balance sheet dynamics support reported results, including:

- revenue recognized ahead of cash collection
- inventory accumulation
- deferred and unrecognized expenses
- suppressed depreciation

These are not isolated factors—they operate together to inflate reported profitability.

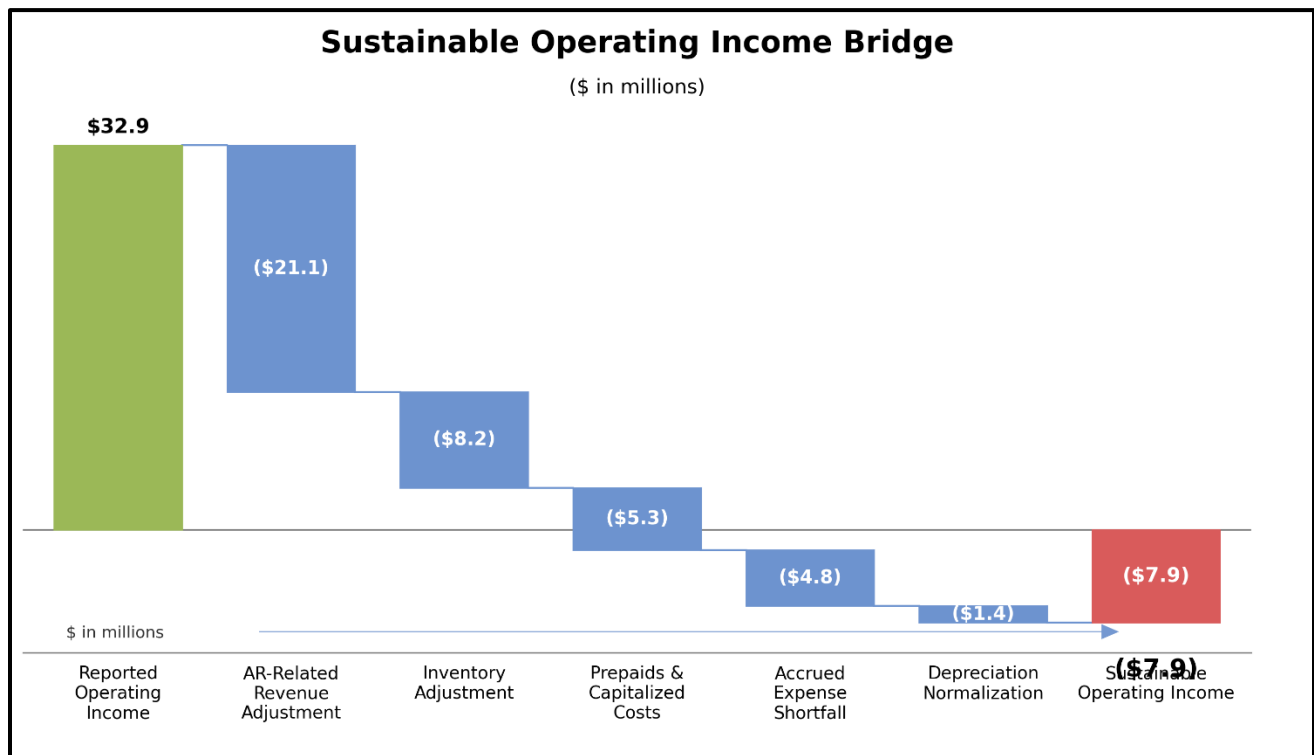
Table 5: Sustainable Operating Income Bridge
(\$ in millions)

Adjustment	Impact
Reported TTM Operating Income	\$32.9
AR-related revenue adjustment	(21.1)
Inventory (DSI) adjustment	(8.2)
Prepays / capitalized costs	(5.3)
Accrued expense shortfall	(4.8)
Depreciation normalization	(1.4)
Est. Sustainable Operating Income.....	\$(7.9)

Individually, these dynamics are concerning. Together, they present a consistent pattern: reported earnings are supported by timing and accounting effects rather than underlying economics.

In our view, Aviat is not generating \$32.9 million of operating income. Instead, the company’s sustainable earnings power is materially lower, and potentially negative, once these temporary dynamics are removed.

Exhibit 6: Sustainable TTM Operating Income



Payables Expansion: Cash Flow Driven by Supplier Financing

Aviat's reported cash flow is being supported by a significant expansion in accounts payable rather than underlying operating performance.

Accounts payable have increased from \$92.9 million in Q4 2024 to \$145.4 million in Q2 2026, even as revenue growth has slowed. This reflects a clear shift in working capital dynamics.

This change is most evident in Days Payable Outstanding¹² (DPO):

- Twelve-month DPO has increased to **172 days**, versus a historical average of ~88 days
- Three-month DPO has reached **174–185 days**, near all-time highs
- This represents a **60–70 day extension** relative to prior operating levels
- **\$35.9 million of the \$145.4 million AP balance** is from forced supplier NEC (discussed in next section)

The evidence is clear, Aviat is taking materially longer to pay its suppliers.

Management has acknowledged increased purchasing activity, noting that it “ramped up inventory purchases,” suggesting higher input costs and supply buildup (although purchase obligations tell a different story).

Under normal conditions, higher purchasing would result in increased cash outflows. Instead, those outflows are being deferred.

This creates a mechanical benefit to reported cash flow:

- Inventory increases → cash outflow
- Payables increase → offsetting inflow
- Net effect → **cash flow appears stronger than underlying operations**

In effect, suppliers are financing the business.

To quantify the impact, we normalize accounts payable to historical levels. Using trailing 12M COGS of \$296.2 million and a normalized DPO of ~100 days, expected payables would be approximately \$81.2 million versus the reported \$145.4 million — implying ~\$64.3 million of excess supplier financing.

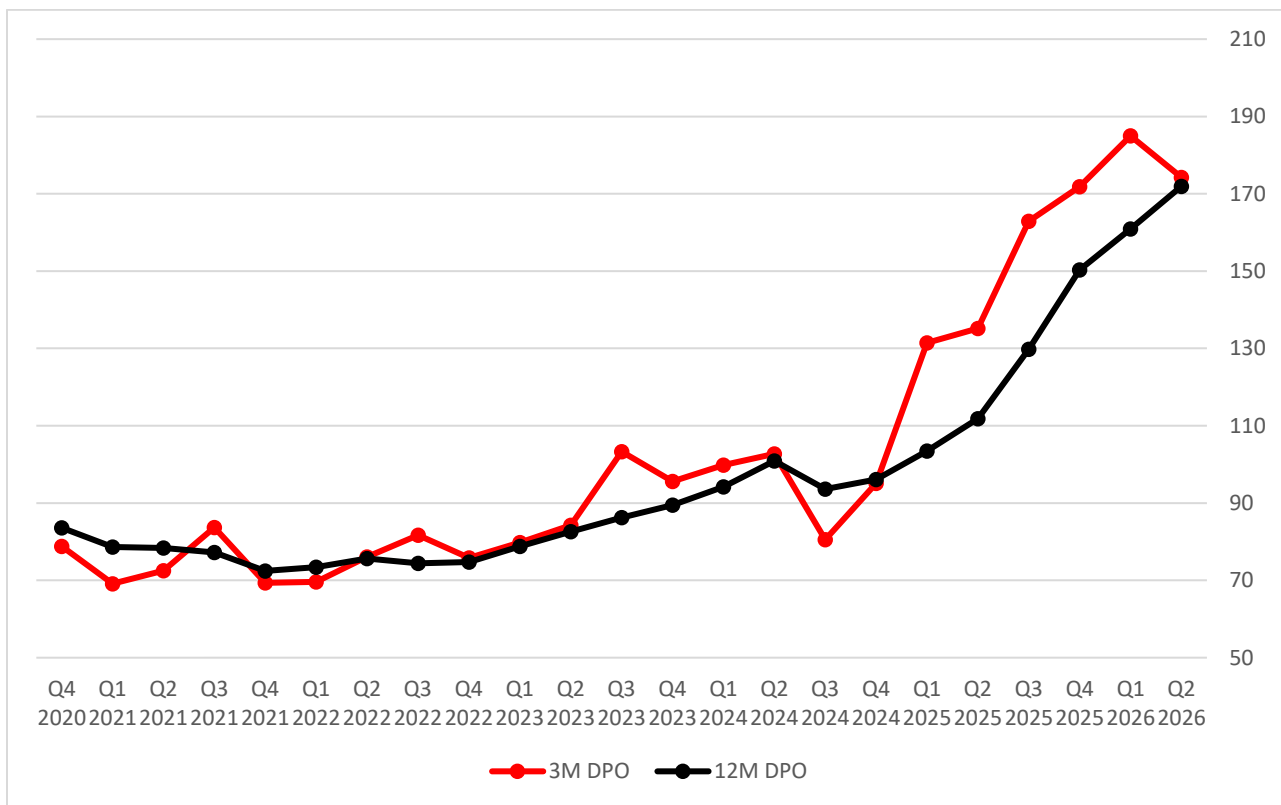
¹² Twelve-month days payables outstanding (12M DPO) = Average AP (last 5 quarters) / 12M COGS * 365.

This has a direct impact on cash flow:

- Reported H1 FY2026 operating cash flow: **\$12.2 million**
- Less excess payable financing: **\$(64.3 million)**
- **Normalized operating cash flow: \$(52.1 million)**

The implication is clear: Aviat is not generating positive cash flow from operations—it is preserving liquidity by delaying supplier payments. If payables normalize, cash flow does not decline—it **reverses sharply negative**.

Chart 6: Three-Month and 12M DPO Trends



Pasolink: A Debt-Funded Acquisition Now Under Dispute

The payables dynamic is no longer theoretical — it is beginning to produce real-world consequences.

NEC, Aviat's largest supplier and the seller of the Pasolink business, has formally initiated arbitration to recover unpaid balances (\$35.9 million) and enforce purchase obligations. According to Aviat's disclosures, **NEC has demanded payment of outstanding accounts payable as well as approximately \$19 million of additional component purchases.**

This escalation is highly unusual. It is rare for a company's largest supplier — and recent acquisition counterparty — to pursue arbitration over unpaid balances.

Aviat's acquisition of NEC's wireless transport business ("Pasolink") in November 2023 was presented as a transformational step to drive scale and growth. The transaction totaled approximately \$54.5 million of consideration, including \$32.2 million in cash and \$22.3 million in equity, with the cash portion funded through borrowings. As a result, Aviat entered a more levered position, increasing its dependence on future cash generation to support both operations and acquisition-related obligations.

From the outset, however, the economics of the acquired business were underwhelming. Aviat disclosed that the NEC business generated approximately \$54.9 million of revenue in its initial post-acquisition period while producing an operating loss of \$1.0 million. The acquisition added revenue, but not profitability.

More importantly, Aviat's own pro forma disclosures indicate that the transaction did not improve the company's underlying growth profile. On a normalized basis — assuming Pasolink had been owned for the full year — Aviat reported fiscal 2024 revenue of approximately \$493.0 million compared to \$530.9 million in fiscal 2023, representing a 7.1% year-over-year decline.

Even after including a full year of Pasolink revenue, the combined business was contracting.

Growth Was Acquisition-Driven, Not Organic

Despite this, Aviat reported revenue growth in fiscal 2025. However, this growth appears to have been largely acquisition-driven.

In the quarters immediately following the transaction, management explicitly attributed international revenue growth to Pasolink:

- Q3 2024: International revenue +79.6%
- Q4 2024: International revenue +66.6%
- Q1 2025: International revenue +44.1%
- Q2 2025: International revenue +39.8%

In fiscal 2025, Pasolink contributed approximately \$126.8 million of revenue, representing a substantial portion of total reported revenue.

When isolating this contribution, underlying performance deteriorates materially:

Table 6: Reported Versus Organic Revenue
(\$ in millions)

Quarter	Reported Revenue	Pasolink	Organic Revenue	Organic YoY
Q3 2024	\$111.6	\$22.5	\$89.1	+6.7%
Q4 2024	\$116.7	\$25.1	\$91.6	+0.5%
Q1 2025	\$88.4	\$25.0	\$63.4	(27.0%)

Reported growth of 28–34% collapses to low single digits or negative when excluding Pasolink. By Q1 2025, organic revenue declined approximately 27% despite reported growth.

Notably, Aviat does not provide a consistent measure of organic revenue growth, requiring investors to reconstruct underlying performance from partial disclosures.

The MSA Transfers Demand Risk to Aviat

The structure of the Pasolink transaction created not only operational dependency, but also binding economic obligations through the Manufacturing and Supply Agreement (“MSA”).

Under the MSA:

- Aviat must provide rolling forecasts for up to 53+ weeks
- Near-term forecast volumes are effectively fixed with limited adjustment flexibility
- Purchase orders are non-cancellable once issued
- Aviat must purchase all components procured based on its forecasts, even if unused

- If actual orders fall below minimum levels, Aviat must compensate NEC for the shortfall
- Aviat must reimburse NEC for costs associated with capacity expansion and procurement

These provisions effectively transfer demand risk from NEC to Aviat. The company is contractually obligated to absorb inventory and purchase commitments regardless of realized demand.

NEC Relationship Has Deteriorated Into Arbitration

NEC is not only the seller of the Pasolink business, but also Aviat's primary manufacturing partner and a significant supplier. This relationship has now escalated into formal dispute.

According to Aviat's disclosures, NEC issued arbitration demands in August and October 2025, including:

- Payment of outstanding accounts payable balances
- Approximately \$19 million of additional component purchases under the MSA

As of December 26, 2025, Aviat reported approximately \$35.9 million of accounts payable owed to NEC, representing roughly 25% of total accounts payable.

In total, Aviat faces over \$50 million of potential cash obligations tied to NEC. Against \$86.5 million of cash on hand, this represents a material liquidity exposure.

The dispute suggests that Aviat's supplier payment delays have moved beyond routine working capital management and into contested non-payment.

Evidence of Demand Mismatch

NEC's demand for approximately \$19 million of additional component purchases is particularly telling.

Under the MSA, these obligations are directly tied to Aviat's prior forecasts and minimum purchase commitments. NEC's enforcement implies that Aviat previously committed to higher purchase volumes but is now attempting to reduce or avoid those obligations.

While multiple factors could contribute to such a shift, this behavior is consistent with a mismatch between expected and realized demand.

This interpretation aligns with Aviat's broader financial trends, including elevated inventory levels, rising receivables, and management's repeated attribution of performance to "timing" of projects and customer CapEx.

Pasolink's Contribution Has Already Faded

Although Pasolink initially drove reported growth, this contribution has not been sustained.

By fiscal 2026:

- Q2 revenue declined 5.7% YOY
- Management cited "timing" of customer projects
- Pasolink was no longer referenced as a growth driver

The disappearance of Pasolink from disclosure, after being repeatedly highlighted as a key driver, suggests that the acquisition is no longer contributing meaningfully to growth.

In our view, Aviat's reported growth has been driven by acquisition rather than underlying demand, and supported by increasingly strained working capital dynamics.

What was presented as a strategic growth initiative has instead resulted in increased operational dependency, contractual rigidity, and a material counterparty risk that is now surfacing in the company's financials.

Governance Breakdown: Control Failures in the Exact Areas Driving Earnings

Aviat's financial reporting framework has weakened in the same accounting areas driving its reported growth.

As of June 27, 2025, management concluded that internal control over financial reporting was not effective due to material weaknesses tied to the control environment and revenue-related processes. Specifically, the company identified ineffective controls over:

- Revenue recognized over time
- Review of revenue-related account reconciliations
- Determination of the appropriate period for revenue recognition

These weaknesses sit directly within the mechanisms supporting Aviat's reported earnings.

Revenue Model Increases Judgment Risk

Aviat's revenue model amplifies this risk.

A significant portion of revenue is recognized using an over-time, cost-input methodology that relies on management estimates of:

- Total contract costs
- Progress toward completion
- Project profitability

As service revenue has grown, the importance of these assumptions has increased. Small changes in estimates can shift revenue and margins between periods.

Aviat acknowledges this dynamic, noting that estimates are developed internally and updated as new information becomes available, with revisions flowing through income in the period identified. In practice, this creates a system where reported results depend heavily on internal assumptions rather than billing or cash milestones.

More recently, management has also pointed to unbilled receivables as a source of future cash generation, highlighting "actionable cash collection opportunities" in upcoming periods—implicitly acknowledging that a meaningful portion of reported revenue has yet to convert into cash.

Auditor Findings Reinforce the Risk

This concern is reinforced by Aviat's auditor.

Deloitte issued:

- An **unqualified opinion on financial statements**
- An **adverse opinion on internal controls (ICFR)**

The auditor stated that the company:

- **did not maintain an effective control environment**
- **lacked sufficient personnel with appropriate accounting expertise**

At the same time, Deloitte identified revenue recognition—specifically cost-to-complete estimates—as a **Critical Audit Matter**, requiring significant judgment. In other words, the area requiring the most estimation is the same area where controls were weakest.

The implication is direct: the area of the financials requiring the most estimation is the same area where controls were found to be ineffective.

Eight days after Deloitte issued its adverse ICFR opinion, Aviat dismissed Deloitte as its auditor. The company appointed Grant Thornton LLP as its replacement for fiscal year 2026 — making Grant Thornton the third auditor in four years, following BDO (through FY2022) and Deloitte (FY2023–FY2025).

The timing of the dismissal — less than two weeks after receiving an adverse control opinion — is highly unusual and raises questions about the independence of the incoming audit relationship at a moment when the company's financial reporting credibility is most under scrutiny.

SEC Scrutiny and Estimate Volatility

Regulatory scrutiny has followed the same pattern.

In a March 2025 comment letter, the SEC requested additional disclosure around over-time revenue and contract estimate revisions. Aviat disclosed:

- Favorable adjustments: \$3.7 million (2024), \$5.4 million (2023), \$4.4 million (2022)
- Unfavorable adjustments: \$(5.4 million), \$(5.3 million), \$(5.5 million)
- Net adjustments negative in 2 of 3 years

The company also disclosed recurring loss contracts.

While characterized as immaterial, the pattern is clear: estimates are both **significant and volatile**, reinforcing the level of subjectivity embedded in reported revenue.

Errors and Revisions Confirm the Breakdown

This risk has already manifested in reported results.

Aviat identified errors in fiscal 2024 related to:

- Estimated contract costs and progress
- Premature revenue recognition
- Incorrect journal entries
-

The company revised prior financial statements:

- Revenue reduced by ~\$2.0M
- Net income reduced by ~\$1.6M (~23%)
- Quarterly net income reduced by ~38%
- EPS revised from \$0.24 to \$0.15

These errors occurred in the same areas driving reported growth.

This is not theoretical and it is evidence that the company's most judgment-sensitive accounting areas have already broken down.

Executive Compensation: Reported Earnings Directly Drive Pay Outcomes

Aviat's compensation is directly tied to the same financial metrics that are influenced by the accounting and working capital dynamics outlined in this report.

Summary Compensation Table							
The following table summarizes the total compensation for each of our fiscal years ended June 27, 2025 (the 2025 year), June 28, 2024 (the 2024 year), June 30, 2023 (the 2023 year), of our Named Executive Officers for the applicable years in which they were serving in their respective Named Executive Officer positions.							
Name, Principal Position	Fiscal Year	Salary ⁽¹⁾ (\$)	Stock Awards ⁽²⁾ (\$)	Option Awards ⁽³⁾ (\$)	Non-Equity Incentive Plan Compensation ⁽⁴⁾ (\$)	All Other Compensation ⁽⁵⁾ (\$)	Total (\$)
Peter A. Smith, Director, President and Chief Executive Officer	2025	650,000	3,111,023	—	—	11,028	3,772,051
	2024	650,000	2,106,947	1,110,668	371,157	13,112	4,251,884
	2023	650,000	1,717,443	785,338	987,438	12,612	4,152,831
Michael Connaway, Senior Vice President and Chief Financial Officer	2025	525,000	1,006,265	—	—	22,442	1,553,707
	2024	38,365	1,000,011	—	28,088	873	1,067,337
Erin Boase, General Counsel, Vice President Legal Affairs	2025	322,648	479,144	—	—	10,304	812,096
	2024	318,000	345,115	181,919	102,078	11,866	958,978
	2023	256,811	149,349	68,291	109,943	9,825	594,219
Gary Croke, Vice President Marketing and Product Line Management	2025	285,500	302,653	—	—	5,974	594,127
	2024	256,331	108,984	57,455	82,366	5,724	510,860
	2023	243,825	73,623	33,654	104,191	5,420	460,713

Aviat's compensation is tied directly to the same metrics this report calls into question. Annual incentives are based on revenue, adjusted EBITDA, and stock price — reported figures, not cash generation. CEO Peter Smith received approximately \$3.1 million in stock awards in fiscal 2025, with total compensation of \$3.8 million. The value of that equity depends entirely on the market's belief in reported earnings.

Management disclosed that no annual cash bonus was paid in fiscal 2025 — but this actually sharpens the concern rather than alleviating it. It demonstrates how sensitive outcomes are to reported performance: small changes in recognized revenue or EBITDA move payouts across the threshold. The incentive to sustain reported results is structural, not incidental.

Our adjustments produce a materially different picture. Reported TTM operating income of \$32.9 million becomes an estimated loss of \$(7.9) million once revenue pull-forward, cost deferral, and suppressed depreciation are normalized. That \$40 million gap is not a difference in accounting philosophy — it is the difference between a management team that hit its targets and one that did not. Under normalized results, revenue growth is lower, EBITDA declines, and profitability-based thresholds move out of reach.

The result is a system where accounting judgments influence compensation outcomes independently of whether the underlying business is generating cash. That is not an accusation of intent — it is a description of incentive architecture. When earnings depend on estimates and timing, and pay depends on those earnings, the rational behavior is to sustain reported results for as long as the balance sheet allows.

Exhibit 7: CEO Compensation versus Aviat Earnings



Conclusion

We believe the bull case for Aviat — and by extension, sell-side estimates built on reported results — rests on assumptions that do not survive contact with the balance sheet.

Aviat is not generating the earnings it reports. Revenue is being recognized before it is billed or collected. Costs are being deferred through prepaid balances, inventory build, and extended depreciation assumptions. Cash flow is being supported by not paying suppliers — a dynamic that has now escalated into formal arbitration with the company's largest vendor and manufacturing partner. **Each of these mechanisms produces reported income without producing cash. Each will eventually reverse.**

The Street treats these dynamics as timing differences. We believe they are structural. Contract assets have grown nearly 200% since 2020 while revenue grew 90%. DSO has reached 231 days — an all-time high and nearly double Ceragon's 134 days in the same market. DPO has hit 172 days against an 88-day historical average. These are not metrics of a business gaining efficiency. They are metrics of a business borrowing performance from its balance sheet.

The Pasolink acquisition, presented as a transformational growth initiative, has introduced obligations the company appears unable to meet. NEC has filed two arbitration demands totaling over \$54 million in unpaid balances and committed purchases. Against \$86.5 million in cash and \$105 million in debt, this is a liquidity event in progress.

The governance picture compounds the concern. Five CFOs in five years. Three auditors in four years. An adverse ICFR opinion from Deloitte — followed by Deloitte's dismissal eight days later. Material weaknesses concentrated in revenue recognition and cost-to-complete estimates — precisely where reported earnings depend most on management judgment. These are not isolated incidents. They form a pattern.

Our analysis estimates sustainable operating income of approximately \$(7.9) million — versus \$32.9 million reported. The \$40.8 million gap is not a difference of opinion on market demand. It is the direct consequence of revenue pull-forward, cost deferral, and accounting flexibility applied consistently across multiple periods. Sustainable earnings, as we estimate them, are negative — meaning a stock trading at 11.8x Street consensus EPS is priced for a business that does not exist in the cash flow statements.

We believe Aviat is not a growth story. It is a melting ice cube and working capital unwind in progress — and the unwind has already begun.

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