

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

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended July 1, 2023**

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 000-22874

Viavi Solutions Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-2579683

(I.R.S. Employer
Identification Number)

1445 South Spectrum Blvd, Suite 102 , Chandler, Arizona 85286

(Address of principal executive offices including Zip code)

(408) 404-3600

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value of \$0.001 per share	VIAV	The Nasdaq Stock Market LLC

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

None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

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

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

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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

As of **December 31, 2022**, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately \$2.3 billion, based upon the closing sale prices of the common stock as reported on the Nasdaq Stock Market LLC. Shares of common stock held by executive officers and directors have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of **July 29, 2023**, the Registrant had 221,495,490 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Notice of Annual Meeting of Stockholders and Proxy Statement to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end of July 1, 2023 are incorporated by reference into Part III of this Report.

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FORWARD-LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K for the year ended July 1, 2023 (Annual Report on Form 10-K), which we also refer to as the Report, which are not historical facts, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. A forward-looking statement may contain words such as “anticipate,” “believe,” “can,” “can impact,” “could,” “continue,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “projects,” “should,” “will,” “will continue to be,” “would,” or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. Forward-looking statements include statements, but are not limited to statements such as:

- Financial projections and expectations, including profitability of certain business units, plans to reduce costs and improve efficiencies including through restructuring programs, the effects of seasonality on certain business units, continued reliance on key customers for a significant portion of our revenue, future sources of revenue, competition and pricing pressures, the future impact of certain accounting pronouncements, and our estimation of the potential impact and materiality of litigation;
- Our expectations regarding demand for our products and services, including industry trends and technological advancements that may drive such demand, the role we will play in those advancements and our ability to benefit from such advancements;
- Our plans for growth and innovation opportunities;
- Our plans for continued development, use and protection of our intellectual property;
- Our strategies for achieving our current business objectives, including related risks and uncertainties;
- Our plans or expectations relating to investments, execution of capital allocation and debt management strategies, acquisitions, partnerships and other strategic opportunities;
- Our research and development plans and investments and the expected impact of such plans on our financial performance;
- Our expectations related to our products, including costs associated with the development of new products, product yields, quality and other issues; and
- Our expectations related to macro-economic conditions, including the impact of inflation, fiscal tightening at central banks, changes in foreign exchange rates, the risk of increased tensions between China and the U.S., and the ongoing military conflict between Russia and Ukraine, on our business, operations and financial results.

Management cautions that forward-looking statements are based on current expectations and assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements. These forward-looking statements are only predictions and are subject to risks and uncertainties including those set forth in Part I, Item 1A “Risk Factors” and elsewhere in this Annual Report on Form 10-K and in other documents we file with the U.S. Securities and Exchange Commission. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Forward-looking statements are made only as of the date of this Report and subsequent facts or circumstances may contradict, obviate, undermine or otherwise fail to support or substantiate such statements. We are under no duty to update any of the forward-looking statements after the date of this Form 10-K to conform such statements to actual results or changes in our expectations.

PART I

ITEM 1. BUSINESS

GENERAL

Overview

Viavi Solutions Inc. (VIAVI, also referred to as the Company, we, our, and us) is a global provider of network test, monitoring, and assurance solutions for communications service providers (CSPs), hyperscalers, network equipment manufacturers (NEMs), original equipment manufacturers (OEMs), government and avionics. We help customers harness the power of instruments, automation, intelligence and virtualization. VIAVI is also a leader in light management technologies for 3D sensing, for the anti-counterfeiting, consumer electronics, industrial, automotive, government and aerospace applications.

To serve our markets, we operate the following business segments:

- Network Enablement (NE);
- Service Enablement (SE); and
- Optical Security and Performance Products (OSP).

Corporate Strategy

Our objective is to continue to be a leading provider in the markets and industries we serve. In support of our business segments, we are pursuing a corporate strategy that we believe will best position us for future opportunities as follows:

- Market leadership in physical and virtualized test and measurement instruments and assurance systems with the opportunity to grow market share;
- Market leadership in anti-counterfeiting pigments, 3D sensing optical filters and other light management technologies;
- Market leadership in 5G wireless, public safety radio and navigation/communication transponder test instruments as well as passive optical components for 3D sensing and other optical sensors;
- Increase benefit from the use of our net operating loss carryforwards (NOL) by improving our profitability organically and inorganically; and
- Greater flexibility in capital structure in support of our strategic plans.

Our near-term strategy, and next transformation phase, will be more focused on growth, both organic and inorganic. We plan to leverage major secular growth trends in 5G wireless, fiber and 3D sensing to achieve higher levels of revenue and profitability.

Our long-term capital allocation strategy, which supports our corporate strategy, is as follows:

- Maintenance and run-rate investments to support operations;
- Organic investments in initiatives to support revenue growth and productivity;
- Return capital to shareholders through share buybacks and execute on capital allocation and debt management strategy; and
- Mergers and acquisitions that are synergistic to company strategy and business segments.

Although we are working to successfully implement our strategy, internal and/or external factors could impact our ability to meet any, or all, of our objectives. These factors are discussed under Item 1A “Risk Factors” of this Annual Report on Form 10-K.

Business Segments

We operate in two broad business categories: Network and Service Enablement (NSE) and Optical Security and Performance Products (OSP). NSE operates in two reportable segments, NE and SE, whereas OSP operates as a single segment. Our NSE and OSP businesses are each organized with their own engineering, manufacturing and dedicated sales and marketing groups focused on each of the markets we serve to better support our customers and respond quickly to market needs. In addition, our segments share common corporate services that provide capital, legal, infrastructure, resources and functional support, allowing them to focus on core technological strengths to compete and innovate in their markets.

Network Enablement

Our NE segment provides an integrated portfolio of testing solutions that access the network to perform build-out and maintenance tasks. These solutions include instruments, software and services to design, build, turn-up, certify, troubleshoot, and optimize networks. These solutions also support more profitable, higher-performing networks and help speed time-to-revenue.

Our solutions address lab and production environments, field deployment and service assurance for wireless and wireline networks, including computing and storage networks. Our test instrument portfolio is one of the largest in the industry, with hundreds of thousands of units in active use by major network equipment manufacturers (NEMs), operators and service providers worldwide.

Within the NE product portfolio, our wireless products consist of flexible application software and multi-function hardware that our customers can easily use as standalone test and measurement solutions or combine with industry-standard computers, networks and third-party devices to create measurement, automation and embedded systems. Our Radio Access Network (RAN) to Core test and validation product addresses the various communications infrastructure market segments.

Our AvComm products are a global leader in test and measurement (T&M) instrumentation for communication and safety in the government, aerospace and military markets. AvComm solutions encompass a full spectrum of instrumentation, which include turnkey systems, stand-alone instruments and modular components that provide customers with highly reliable, customized, innovative and cost-effective testing tools and resilient Positioning, Navigation and Timing (PNT) solutions for critical infrastructure serving military and civilian applications.

Markets

Our NE segment provides solutions for CSPs, as well as NEMs and data center providers that deliver and/or operate broadband/IP networks (fixed and mobile) supporting voice, video and data services as well as a wide range of applications. These solutions support the development and production of network equipment, the deployment of next generation network technologies and services, and ensure a higher-quality customer experience. AvComm products are positioned in all of the customers' product life cycle phases from research & development (R&D), manufacturing, installation, deployment and field, to depot repair and maintenance of devices.

Customers

NE customers include CSPs, NEMs, government organizations and large corporate customers, such as major telecom, mobility and cable operators, chip and infrastructure vendors, storage-device manufacturers, storage-network and switch vendors, radio and avionics commercial companies, original equipment manufacturers (OEMs), state and federal agencies, utilities, law enforcement, military contractors and the armed forces and deployed private enterprise customers. Our customers include América Móvil, AT&T Inc., Lumen Technologies, Inc. (formerly CenturyLink, Inc.), Cisco Systems, Inc., Nokia Corporation, British Telecom Openreach, Deutsche Telekom AG and Verizon Communications Inc.

For further information related to our customers, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 of this Annual Report on Form 10-K.

Competition

NE competitors include Anritsu Corporation, EXFO Inc., Keysight Technologies Inc., Rohde & Schwarz, VeEX Inc. and Spirent Communications plc. While we face multiple competitors for each of our product families, we continue to have one of the broadest portfolios of wireline and wireless products available in the network enablement industry.

Offerings

Our NE solutions include instruments and software that support the development and production of network systems in the lab. These solutions activate, certify, troubleshoot and optimize networks that are differentiated through superior efficiency, reliable performance and greater customer satisfaction. Designed to be mobile, these products include instruments and software that access the network to perform installation and maintenance tasks. They help service provider technicians assess the performance of network elements and segments and verify the integrity of the information being transmitted across the network. These instruments are highly intelligent and have user interfaces that are designed to simplify operations and minimize the training required to operate them. Our NE solutions are also used by NEMs in the design and production of next-generation network equipment. Thorough testing by NEMs plays a critical role in producing the components and equipment that are the building blocks of network infrastructure. We leverage our installed base and knowledge of network management methods and procedures to develop these advanced customer experience solutions.

We also offer a range of product support and professional services designed to comprehensively address our customers' requirements. These services include repair, calibration, software support and technical assistance for our products. We offer product and technology training as well as consulting services. Our professional services, provided in conjunction with system integration projects, include project management, installation and implementation.

Our NE products and associated services are, as follows:

Field Instruments: Primarily consisting of (a) access and cable products; (b) avionics products; (c) fiber instrument products; (d) metro products; (e) RF test products; and (f) radio test products.

Lab Instruments: Primarily consisting of (a) fiber optic production lab tests; (b) optical transport products; (c) computing and storage network test products; and (d) wireless products.

Service Enablement

SE provides embedded systems and enterprise performance management solutions that give global CSPs, enterprises and cloud operators visibility into network, service and application data.

Our assurance solutions let carriers remotely monitor the performance and quality of network, service and applications performance throughout the entire network. This provides our customers with enhanced network management, control, and optimization that allow network operators to initiate service to new customers faster, decrease the need for technicians to make on-site service calls, help to make necessary repairs faster and, as a result, lower costs while providing higher quality and more reliable services. Remote monitoring decreases operating expenses, while early detection helps increase uptime, preserve revenue, and helps operators better monetize their networks.

Our network performance management products help enterprise IT and security teams monitor and optimize connectivity for their employees across on-premise and cloud domains and conduct preventative and forensic analysis to address rising security challenges. This functionality has become more critical as organizations continue to operate under remote working procedures, increasing network challenges and security risks.

Markets

Our SE segment provides solutions and services primarily for CSPs and enterprises that deliver and/or operate broadband/IP networks (fixed and mobile) supporting voice, video and data services as well as a wide range of applications. These solutions provide network and application visibility to enable more cost-effective ways to provide a higher-quality customer experience.

Customers

SE customers include similar CSPs, NEMs, government organizations, large corporate customers and storage-segment customers that are served by our NE segment.

For further information related to our customers, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 of this Annual Report on Form 10-K.

Competition

SE segment competitors include NetScout Systems, Inc., Riverbed Technology, Inc. and Spirent Communications plc. While we face multiple competitors for each of our product families, we continue to have one of the broadest portfolios of wireline and wireless monitoring solutions available in the service enablement industry.

Offerings

Our SE solutions are embedded network systems, including instruments, microprobes and software that collect and analyze network data to reveal the actual customer experience and identify opportunities for new revenue streams and network optimization. These solutions provide our customers enhanced network management, control, optimization and differentiation and a complete service assurance platform for mobile communications, providing operators with network performance, inventory, configuration and fault management solutions through artificial intelligence driven key performance indicator analysis. Our customers are able to access and analyze the growing amount of network data from a single console, simplifying the process of deploying, provisioning and managing network equipment and services. These capabilities allow network operators to initiate service to new customers faster, decrease the need for technicians to make on-site service calls, and help to make necessary repairs faster, which lowers costs while providing higher quality and more reliable services.

Our SE products and associated services are, as follows:

Data Center: Primarily consisting of our network performance monitoring and diagnostic tools (Apex, GigaStor, Observer).

Assurance: Primarily consisting of our growth products (location intelligence and NITRO mobile products) and mature products.

Industry Trends for NSE

The telecommunications industry is experiencing a major evolution in technology as wireless communications expand and evolve from 4G to 5G technology. 5G's increased bandwidth capacity and speed, as well as lower latency will expand applications beyond mobile devices. 5G is expected to enable numerous use cases including greater device-to-device connectivity, smart applications, autonomous cars, factory automation and other applications that are yet to be conceptualized. The increase in demand for openness and scalability in the 5G Radio Access Network is motivating the push towards O-RAN standards and ecosystems. O-RAN will eventually improve the time-to-market for new verticals and innovations as well as reduce the total cost of ownership. The 5G transition is being deployed globally and is expected to be disruptive to businesses, consumers and potentially create new applications and vertical industries.

The increase in demand for 5G services will be increasingly supported by automation and associated artificial intelligence and machine learning, which will further enable enterprise requirements for private 5G as well as numerous use cases such as remote working and energy efficiency. Such increases in demand for pervasive on-premise/off-premise services will further drive the need for cybersecurity. Further adoption of 5G will require optical fiber upgrades and buildouts driven by traditional CSPs as well as enterprise networks. Hyperscale service providers have become significant drivers of technology innovation, including optical fiber up to 800GbE. The scale and complexity of these technology shifts are also challenging service providers to rearchitect their networks, becoming more virtualized, and optimized based on real-time intelligence. We believe these investments will extend fiber connectivity beyond the office and home and permeate "fiber-to-the-everywhere" leading to potential new business opportunities for VIAVI.

Existing network infrastructure that is not otherwise being upgraded is also expected to be modernized with new cable and access technologies. Cable providers are investing in DOCSIS 3.1 to enhance existing cable networks while DSL copper lines are being upgraded to GFast. Many operators have decided to run existing legacy networks by deploying superior technologies or continuing to run such networks until they are no longer operable and then replacing them with new optical fiber. For our avionics products, many governments across the globe are increasing their military and public safety budgets to upgrade communication infrastructure.

The convergence of network technologies requires significant investments from both traditional carriers and cloud service providers. While traditional services providers, in recent years, have continued to consolidate to gain scale, and capital spending in physical networks has been declining, it also creates additional opportunities as service providers deploy NE products and solutions to improve average revenue per user (ARPU) metrics by reducing the need for physical customer service visits through faster installation and repair completion. In addition, the new cloud service providers and virtualized networks create new NSE opportunities. We believe our NSE products and solutions are well positioned to meet these rapidly changing industry trends, given our technology and products, as well as customer installed base.

Optical Security and Performance Products

Our OSP segment leverages its core optical coating technologies and volume manufacturing capability to design, manufacture, and sell technologies for the anti-counterfeiting, consumer electronics, industrial, government and automotive markets.

Our technologies targeting anti-counterfeiting applications include Optical Variable Pigment (OVP®) and Optical Variable Magnetic Pigment (OVMP®). OVP enables color-shifting effects, and OVMP enables depth and motion effects in addition to color-shifting effects. Both OVP and OVMP are formulated into inks used by banknote issuers and security printers worldwide for anti-counterfeiting applications on banknotes and other high-value documents. Our technologies are deployed on the banknotes of more than 100 countries today.

Other OSP product lines include custom color solutions and spectral sensing. Custom color solutions include innovative special effects pigments for the automotive market. Spectral sensing solutions include handheld and process miniature near infrared spectrometers for pharmaceutical, agriculture, food, feed, and industrial applications.

Markets

Our OSP segment delivers overt and covert technologies to protect banknotes and documents of value against counterfeiting, with a primary focus on the currency market. OSP also produces precise, high-performance, optical thin-film coatings and light shaping optics capabilities for a variety of applications including, for example, optical filters and Engineered Diffusers, marketed under the trademark “Engineered Diffusers®”, for 3D sensing applications.

Customers

OSP customers include SICPA Holding SA Company (SICPA), STMicroelectronics Holding N.V., Lockheed Martin Corporation and Seiko Epson Corporation.

We have a strategic alliance with SICPA to market and sell our OVP and OVMP product lines for banknote anti-counterfeiting applications worldwide. Sales of these products to SICPA generated approximately 10% of our net revenue from continuing operations during fiscal 2021, 2022 and 2023. A material reduction in sales, or loss of the relationship with SICPA, may harm our business and operating results as we may be unable to find a substitute marketing and sales partner or develop these capabilities ourselves in a timely manner. For additional information please see the Risk Factor entitled “*We may experience increased pressure on our pricing and contract terms due to our reliance on a limited number of customers for a significant portion of our sales*” under Item 1A “Risk Factors,” and “Note 19. Operating Segments and Geographic Information” of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

For further information related to our customers, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Item 7 of this Annual Report on Form 10-K.

Competition

OSP competitors include providers of anti-counterfeiting technologies such as Giesecke & Devrient, De La Rue plc; special-effect pigments such as Merck KGA; coating companies such as Nidek, Toppan and Toray; optics companies such as Materion; and manufacturers of passive and other optical components such as II-VI Inc. and AMS.

Offerings

Our OSP business provides innovative light management technologies for the anti-counterfeiting, consumer electronics, industrial, government and automotive markets.

Anti-Counterfeiting: Our OVP and OVMP technologies are incorporated into inks used by many government and state-owned security printers worldwide for banknote protection. These technologies deliver a range of intuitive overt effects that enable the rapid verification of banknotes without requiring a specialized device or reader.

Consumer Electronics and Industrial: Our OSP business manufactures and sells optical filters for 3D sensing products that separate ambient light from incoming data to allow devices to be controlled by a person's movements or gestures. Our Engineered Diffusers shape light emitted for 3D sensing applications and also enhance eye safety. We provide multicavity and linear variable optical filters on a variety of substrates for applications, including thermal imaging, spectroscopy and pollution monitoring. We also develop and manufacture miniature handheld and process near infrared spectrometers that leverage our linear variable optical filters for use in applications for agriculture, pharmaceutical and other markets.

Government: Our products are used in a variety of government and aerospace applications, including optics for inter-satellite laser communications, guidance systems, laser eye protection and night vision systems. These products, including coatings and optical filters, are optimized for each specific application.

Automotive: For product differentiation and brand enhancement, we provide custom color solutions for a variety of applications using our ChromaFlair® and SpectraFlair® pigments to create color effects that emphasize body contours, create dynamic environments, or enhance products in motion. These pigments are added to paints, plastics or textiles for automotive, sports apparel, and other applications. Additionally, our optical filters and Engineered Diffusers enable automotive sensing applications including LiDAR and in-cabin monitoring.

Industry Trends

For nearly 75 years, OSP has developed and deployed capabilities that alter how the light is transmitted, reflected, and absorbed, enabling a range of mission critical and high-volume optical solutions.

We leverage our capabilities to deliver technologies that enable anti-counterfeiting solutions designed to protect the integrity of banknotes and other documents of value. The wide availability of advanced and relatively low-cost imaging technologies and printing tools threatens the integrity of critical printed documents, necessitating robust, technically sophisticated and easy to validate anti-counterfeiting features. Our OVP, and OVMP technologies enable intuitive overt optical effects that consumers can easily recognize but counterfeiters find very difficult to reproduce.

We also design, manufacture and sell optical filters for 3D sensing applications that allow consumers to interact with their devices more naturally by enabling electronic devices to accurately measure depth and motion. Our filters play an important role in those applications, separating out ambient light from the incoming data used by sensors to make precise measurements. Notably, our patented low angle shift technology enables our customers to significantly improve the signal-to-noise ratio of their systems and deliver reliable system performance. Through the development of multiple generations of products for 3D sensing and by delivering improved performance and competitive value with each iteration, we believe we have established ourselves as one of the industry's leading supplier of high-performance filters enabling depth-sensing systems in consumer electronics. Similarly Engineered Diffusers, diffuse the infrared laser light transmitted by a smartphone in 3D sensing applications, enabling reliable system performance while also guarding eye safety.

In addition to anti-counterfeiting and 3D sensing applications, OSP technologies enable optical solutions in industries we believe the applications of which will mature or there will be development of new applications for OSP technologies that will grow demand for our OSP products and solutions.

Research and Development

We devote substantial resources to R&D to develop new and enhanced products to serve our markets. Once the design of a product is complete, our engineering efforts shift to enhancing both product performance and our ability to manufacture it in greater volume and at lower cost.

In our NE and SE segments, we develop portable test instruments for field service technicians, systems and software used in Network Operations Centers, and instruments used in the development, testing and production of communications network components, modules and equipment. We have centers of excellence for product marketing and development in Asia, Europe and North America.

In our OSP segment, our R&D efforts concentrate on developing more innovative technologies and products for customers in the anti-counterfeiting, consumer electronics, industrial, government and automotive markets. Our strength in the banknote anti-counterfeiting market is complemented by our advances in developing novel pigments for a variety of applications. Other areas for OSP include our efforts to leverage our optical coating technology expertise to develop applications for the government and defense markets as well as efforts related to new products for 3D sensing and smartphone sensors. OSP also develops, manufactures and sells a line of miniature hand-held spectrometers with applications in the agriculture, healthcare and defense markets.

Sales and Marketing

CSPs make up the majority of our NSE revenues. We also market and sell products to NEMs, OEMs, enterprises, governmental organizations, distributors and strategic partners worldwide. We have a dedicated sales force organized around each of the markets that we serve that works directly with customers' executive, technical, manufacturing and purchasing personnel to determine design, performance and cost requirements. We are also supported by a worldwide channel community, including our Velocity Solution Partners, who support our NSE segment.

OSP sales and marketing efforts are targeted primarily toward customers in the consumer electronics, government, automotive and industrial markets. We have a dedicated direct global sales force focused on understanding customers' requirements and building market awareness and acceptance of our products. Our direct sales force is complemented by a highly trained team of field applications engineers who assist customers in designing, testing and qualifying our products. We market our products and capabilities through attendance at trade shows, the production of promotional webinars, the development of samples and product demonstrations, participation in technical forums, select advertising and by developing customer partnerships.

A high level of support is a critical part of our strategy to develop and maintain long-term collaborative relationships with our customers. We develop innovative products by engaging our customers at the initial design phase and continue to build that relationship as our customers' needs change and develop. Service and support are provided through our offices and those of our partners worldwide.

Acquisitions

As part of our strategy, we are committed to the ongoing evaluation of strategic opportunities and, where appropriate, the acquisition of additional products, technologies or businesses that are complementary to, or strengthen, our existing products.

For further information related to our acquisitions, refer to "Note 5. Acquisitions" under Item 8 of this Annual Report on Form 10-K.

Restructuring Programs

We may continue to engage in targeted restructuring events, to consolidate our operations and align our businesses in response to market conditions and our current investment strategy. Such actions are intended to further drive our strategy for organizational alignment and consolidation as part of our continued commitment to a more cost effective and agile organization and to improve overall profitability in our business segments.

For further information refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 and "Note 13. Restructuring and Related Charges" under Item 8 of this Annual Report on Form 10-K.

Manufacturing

As of July 1, 2023, we have significant manufacturing facilities for our NE, SE and OSP segments located in China, France, Germany, Mexico, the United Kingdom and the United States. Our most significant contract manufacturing partners are located in China and Mexico.

Sources and Availability of Raw Materials

We use various suppliers and contract manufacturers to supply parts and components for the manufacture and support of multiple product lines. Although we intend to establish at least two sources of supply for materials whenever possible, for certain components we have sole or limited source supply arrangements.

Patents and Proprietary Rights

Intellectual property rights apply to our various products include patents, trade secrets and trademarks. We do not intend to broadly license our intellectual property rights unless we can obtain adequate consideration or enter into acceptable intellectual property cross-licensing agreements. As of July 1, 2023, we own 956 U.S. patents and 1,892 foreign patents and have 1,155 patent applications pending throughout the world. The average age of the patents we hold is 8.9 years, which is younger than the midpoint of the average 20-year life of a patent.

Backlog

Due to possible changes in product delivery schedules and cancellation of product orders, and because our sales often reflect orders shipped in the same quarter in which they are received, our backlog at any particular date is not necessarily indicative of actual revenue or the level of orders for any succeeding period.

Seasonality

Our business is seasonal, as is typical for our competitors and many large companies. For NSE, revenue is typically higher in the second and fourth fiscal quarter, all else being equal. There is typically a modest end of calendar year customer spending budget that benefits our second fiscal quarter. Telecom and cable spending budgets are typically set at the start of a new calendar year, thus with all else being equal, our third fiscal quarter is NSE's weakest revenue quarter with spending release benefiting our fourth fiscal quarter.

For our OSP business, given our exposure to the consumer market, namely our 3D sensing products into the smartphone market, OSP revenue is expected to be seasonally higher in the first and second fiscal quarter followed by seasonal demand declines in the third and fourth fiscal quarters.

Human Capital Management

The VIAVI culture is made up of the diverse contributions of our approximately 3,600 employees worldwide (as of July 1, 2023) representing more than 30 self-identified nationalities working across 30 countries. VIAVI is committed to promoting and maintaining a diverse and inclusive work environment and offering equal opportunities to everyone. We seek to empower our employees to learn and develop their skills to accelerate their career and to attract best-in-class talent. The CEO and the SVP of Human Resources are responsible for the development of our People Strategy and execute on this with the support of the Executive Management Team. We regularly update and partner with the Compensation Committee of the Board of Directors on human capital matters. Employee experience continues to be an important focus of our People Strategy, including implementing automation to increase efficiency in our business processes, manager and employee self-service for transactions and advanced reporting for organizational insight. In addition, we launched a new learning management system to allow for micro-learning in the flow of work. Our next phase will include improving our approach to measuring employee sentiment and drivers for engagement.

Business Values & Standards

The VIAVI business values articulate the internal cultural identity of VIAVI employees and provide a shared understanding of expectations across the Company. They represent the principles that will help guide us to achieve our objectives globally and the desired operating environment of the employees and management. VIAVI is committed to respecting human rights and acknowledges the fundamental principles contained in the Universal Declaration of Human Rights, the tenets of the United Nations Guiding Principles on Business and Human Rights, and core International Labor Organization Conventions to the extent they are applicable and important to our business. We are a member of the Responsible Business Alliance, which further strengthens our efforts and commitment.

We realize that being a responsible global citizen is important to the sustainability and commercial success of our business and encompasses more than just complying with local regulations. It's about how we do business, and how our organization's activities affect the people and communities where we live and work. The VIAVI Code of Business Conduct captures the broad principles of legal and ethical business conduct embraced by the Company as part of its commitment to integrity. VIAVI expects that all employees will act in a manner that complies both with the letter and spirit of this code of conduct.

Diversity, Equity, and Inclusion (DEI)

VIAVI is committed to fostering, cultivating, and preserving a culture of diversity, equity and inclusion. Our human capital is one of our most valuable assets. We believe the collective sum of our individual differences, life experiences, knowledge, innovation, business acumen, self-expression, and unique capabilities contributes to a culture that enhances our reputation and achievement.

VIAVI has long been committed to ensuring that all individuals have an equal opportunity to enjoy a fair, safe and productive work environment – regardless of age, ancestry, race, color, mental or physical disability or medical condition, gender, gender identity, gender expression, genetic information, family or marital status, registered domestic partner status, military and veteran status, race, religious creed, language, national origin, citizenship status, sex (including pregnancy, childbirth, breastfeeding and any related medical conditions), sexual orientation, socio-economic status, or any other protected category under applicable law. We seek to embrace, encourage, and celebrate our employees' differences and what makes them unique.

Talent Development

Our talent development offerings provide relevant and useful learning resources for our employees, managers, and leaders that invite a growth mindset and create an appetite for lifelong learning.

We seek to drive talent conversations at all levels, which is complemented by Everyday Development, our performance management check-in process. Check-ins ensure that employees are being coached and supported throughout the year with relevant and timely discussions on expectations, feedback, and development. Both managers and employees have a role to play to ensure that they are connected to the activities that drive our business forward. Our employees can expect to engage regularly with their manager, and to have their support to accelerate their performance and development.

Our global Leadership Development Program has now reached over 70% of our leaders in fiscal 2023. We introduced advanced leadership concepts this year, enabling our participants to connect globally and cross functionally while advancing their skills.

We continue to provide guidance and best practices in hybrid working for our employees and managers, which are supported by our Flexible Work policy.

The early-in-career rotation programs for engineers and sales talent continue. Our diverse and global program participants are supported by a mentor and their manager to coach them as they take on exciting new technical challenges. We believe their program experiences will unleash innovation and creativity for our organization while enabling our long-term talent pipeline.

Technical talent thought leadership is a continued focus at our annual Technology Council event for engineering talent.

We are encouraged that VIAVI employees exhibit commitment to their ongoing career development, with 70% of our individual contributors building the professional and technical skills they need to advance their careers.

Our employees regularly participate in mandatory training courses covering data privacy, cybersecurity, health and safety as well as the prevention of sexual harassment in the workplace, each achieving over 99% compliance by employees.

Talent Rewards

Our compensation and benefits programs are designed to recognize our employees' individual performance and contributions to our business results, including competitive base salaries and variable pay for all employees, share-based equity award grants, health and welfare benefits, time-off, development programs and training, and opportunities to give back to our communities. We provide talent rewards that are competitive in the marketplace. We support equal pay for equal work, pay transparency as well as all federal anti-discrimination laws applicable to employment, including those within Title VII of the Civil Rights Act.

Health and Safety

VIAVI is committed to maintaining an inclusive, supportive, safe and healthy work environment where our employees can thrive. We demand strict compliance with all applicable health and safety regulations, offer robust training to our employees on health and safety matters, maintain controls and proper disposal of hazardous materials and track workplace incidents and injuries. We maintain and regularly update emergency and disaster recovery plans.

The success of our Safety program is demonstrated by our best-in-class Total Recordable Injury Rate (TRIR) of only 0.13 injuries per 100 full-time workers per year.

Environmental, Social and Governance Matters

We believe that serving our stakeholders, including our stockholders, customers, suppliers, employees, communities and the environment, drives commercial success and that implementing environmental, social and governance (ESG) practices makes our business more sustainable. We take immense pride in the progress we are making within our ESG initiatives. VIAVI is committed to transparency in its environmental practices, and we publicly report our key environmental metrics. VIAVI continues to focus on energy efficiency, both in our products and business practices – which has resulted in a significant reduction of our carbon footprint over the years. Our annual ESG report can be found at www.viavisolutions.com/esg.

Information Security

Information security is the responsibility of our Information Security team, overseen by our Chief Information Security Officer. Our enterprise risk management program considers cybersecurity risks alongside other company risks, and our enterprise risk professionals consult with company subject matter experts to gather information necessary to identify cybersecurity risks, and evaluate their nature and severity, as well as identify mitigations and assess the impact of those mitigations on residual risk. We leverage a combination of the National Institute of Standards and Technology Cybersecurity Framework, International Organization for Standardization and Center for Internet Security best practice standards to measure our security posture and manage risk.

Our information security practices include development, implementation, and improvement of policies and procedures to safeguard information and ensure availability of critical data and systems. Our Information Security team conducts annual information security awareness training for employees involved in our systems and processes that handle customer data and audits of our systems and enhanced training for specialized personnel. We also conduct semi-annual cyber awareness training and run tabletop exercises to simulate a response to a cybersecurity incident, and use the findings to improve our practices, procedures, and technologies. Our Incident Response Plan coordinates the activities we take to prepare for, detect, respond to and recover from cybersecurity incidents, which include processes to triage, assess severity for, escalate, contain, investigate, and remediate the incident, as well as to comply with potentially applicable legal obligations and mitigate brand and reputational damage.

Our program further includes review and assessment by external, independent third-parties, who assess and report on our internal incident response preparedness and help identify areas for continued focus and improvement. We also carry insurance that provides protection against the potential losses arising from a cybersecurity incident. In the last fiscal three years, we have not experienced any material information security breach incidences and the expenses we have incurred from information security breach incidences were immaterial. This includes penalties and settlements, of which there were none.

As set forth in its charter, our Audit Committee, comprised fully of independent directors, is responsible for oversight of risk, including cybersecurity and information security risk. Our Audit Committee has established a Cybersecurity Steering Committee consisting of three independent directors, Laura Black (who serves as Chair of the Cybersecurity Steering Committee), Douglas Gilstrap and Joanne Solomon, as well as our Chief Information Officer, our Chief Information Security Officer and other members of our management representing a variety of teams and functions including legal, finance, and internal audit. Members of our Cybersecurity Steering Committee have work experience managing cybersecurity and information security risks, an understanding of the cybersecurity threat landscape and/or knowledge of emerging privacy risks.

The purpose of the Cybersecurity Steering Committee is to oversee our compliance with reasonable and appropriate organizational, physical, administrative and technical measures designed to protect the integrity, security and operations of our information technology systems, transactions, and data owned by us, by providing guidance and oversight of our information technology and cybersecurity program.

The Cybersecurity Steering Committee generally meets on a quarterly basis and generally delivers reports and updates to the Audit Committee at each scheduled Audit Committee meeting. The Audit Committee or, at the Audit Committee's instruction, the Cybersecurity Steering Committee regularly briefs the full Board on these matters, and the Board receives regular updates on the status of the information security program, including but not limited to relevant cyber threats, roadmap and key initiative updates, and the identification and management of information security risks. Our full Board reviews cybersecurity related opportunities as they relate to our business strategy, and cybersecurity-related matters are also factored into business continuity planning.

Where You Can Find More Information

Our website address is www.viavisolutions.com, which the Company uses as a means to disclose important information about the Company and comply with its disclosure obligations under Regulation Fair Disclosure. We are subject to the requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), under which we file annual, quarterly and periodic reports, proxy statements and other information with the SEC, which can be accessed on www.sec.gov. We also make available free of charge all of our SEC filings on our website at www.viavisolutions.com/investors as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The information contained on any of the websites referenced in this Annual Report on Form 10-K are not part of or incorporated by reference into this or any other report we file with, or furnish to, the SEC.

ITEM 1A. RISK FACTORS

Global Risks

Geopolitical conditions, including political turmoil and volatility, regional conflicts, terrorism and war could result in market instability, which could negatively impact our business results.

We operate globally and sell our products in countries throughout the world. Recent escalation in regional conflicts, including the Russian invasion of Ukraine, resulting in ongoing economic sanctions, and the risk of increased tensions between the U.S. and China, could curtail or prohibit our ability to transfer certain technologies, to sell our products and solutions, or to continue to operate in certain locations. Foreign companies with a presence in China are facing increasing operational challenges and enhanced scrutiny from governmental entities in region. Further, it is possible that the U.S.-Chinese geopolitical tensions could result in government measures that could adversely impact our business. For example, in May of 2023, China announced controls on the use of Micron products in China, following a cybersecurity review of Micron. At this time, the scope of these restrictions and entities impacted, and impact on VIAVI, is unclear. This could have an adverse impact on our revenues in region. International conflict has resulted in (i) increased pressure on the supply chain and could further result in increased energy costs, which could increase the cost of manufacturing, selling and delivering products and solutions (ii) inflation, which could result in increases in the cost of manufacturing products, reduced customer purchasing power, increased price pressure, and reduced or cancelled orders (iii) increased risk of cybersecurity attacks and (iv) general market instability, all of which could adversely impact our financial results. Moreover, domestically, U.S. political dissension on raising the debt ceiling may increase the possibility of a government shutdown, default by the U.S. government on its debt obligations, or related credit-rating downgrades, all of which could also have adverse effects on the broader global economy and contribute to, or worsen, an economic recession.

The COVID-19 pandemic has and may continue to adversely affect how we and our customers are operating our businesses.

The worldwide spread of the COVID-19 virus resulted in a global slowdown of economic activity which led, at times, to slowdowns in shipping and commercial activities.

The lingering impacts of the COVID-19 pandemic may continue to adversely affect the financial markets in many countries. In addition, the emergence of new and potentially more contagious variants of the virus, new shutdowns or quarantines, and the resulting staffing and labor supply challenges may impact our suppliers and our ability to source materials in a timely manner, may negatively impact manufacturing or shipment of our products and hence adversely affect our results of operations and financial conditions.

Risks Related to Our Business Strategy and Industry

Our future profitability is not assured.

Our profitability in a particular period will be impacted by revenue, product mix and operational costs that vary significantly across our product portfolio and business segments.

Specific factors that may undermine our profit and financial objectives include, among others:

- Uncertain future telecom carrier and cable operator capital and R&D spending levels, which particularly affects our NE and SE segments;
- Adverse changes to our product mix, both fundamentally (resulting from new product transitions, the declining profitability of certain legacy products and the termination of certain products with declining margins, among other things) and due to quarterly demand fluctuations;
- Pricing pressure across our NSE product lines due to competitive forces, advanced chip component shortages, and a highly concentrated customer base for many of our product lines, which may offset some of the cost improvements;
- Our OSP operating margin may experience some downward pressure as a result of a higher mix of 3D sensing products and increased operating expenses;
- Limited availability of components and resources for our products which leads to higher component prices;

- Resource rationing, including rationing of utilities like electricity by governments and/or service providers;
- Increasing commoditization of previously differentiated products, and the attendant negative effect on average selling prices and profit margins;
- Execution challenges, which limit revenue opportunities and harm profitability, market opportunities and customer relations;
- Decreased revenue associated with terminated or divested product lines;
- Redundant costs related to periodic transitioning of manufacturing and other functions to lower-cost locations;
- Ongoing costs associated with organizational transitions, consolidations and restructurings, which are expected to continue in the nearer term;
- Cyclical demand for our currency products;
- Changing market and economic conditions, including the impacts due to tariffs, the ongoing conflict between Russia and Ukraine, tensions between the U.S. and China, supply chain constraints, pricing and inflationary pressures;
- Ability of our customers, partners, manufacturers and suppliers to purchase, market, sell, manufacture and/or supply our products and services, including as a result of disruptions arising from supply chain constraints;
- Financial stability of our customers, including the solvency of private sector customers and statutory authority for government customers to purchase goods and services; and
- Factors beyond our control resulting from pandemics and similar outbreaks such as the COVID-19 pandemic, manufacturing restrictions, travel restrictions and shelter-in-place orders to control the spread of a disease regionally and globally, and limitations on the ability of our employees and our suppliers' and customers' employees to work and travel.

Taken together, these factors limit our ability to predict future profitability levels and to achieve our long-term profitability objectives. If we fail to achieve profitability expectations, the price of our debt and equity securities, as well as our business and financial condition, may be materially adversely impacted.

Rapid technological change in our industry presents us with significant risks and challenges, and if we are unable to keep up with the rapid changes, our customers may purchase less of our products.

The manufacture, quality and distribution of our products, as well as our customer relations, may be affected by several factors, including the rapidly changing market for our products, supply chain issues and internal restructuring efforts. We expect the impact of these issues will become more pronounced as we continue to introduce new product offerings and when overall demand increases.

Our success depends upon our ability to deliver both our current product offerings and new products and technologies on time and at an acceptable cost to our customers. The markets for our products are characterized by rapid technological change, frequent new product introductions, substantial capital investment, changes in customer requirements and a constantly evolving industry. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address these issues and provide solutions that meet our customers' current and future needs. As a technology company, we also constantly encounter quality, volume and cost concerns such as:

- Our continuing cost reduction programs which include site and organization consolidations, asset divestitures, outsourcing the manufacture of certain products to contract manufacturers, other outsourcing initiatives, and reductions in employee headcount, requirements related to re-establishment and re-qualification by our customers of complex manufacturing lines, and modifications to systems, planning and operational infrastructure. During this process, we have experienced, and may continue to experience, additional costs, delays in re-establishing volume production levels, planning difficulties, inventory issues, factory absorption concerns and systems integration problems.

- We have experienced variability of manufacturing yields caused by difficulties in the manufacturing process, the effects from a shift in product mix, changes in product specifications and the introduction of new product lines. These difficulties can reduce yields or disrupt production and thereby increase our manufacturing costs and adversely affect our margin.
- We may incur significant costs to correct defective products (despite rigorous testing for quality both by our customers and by us), which could include lost future sales of the affected product and other products, and potentially severe customer relations problems, litigation and damage to our reputation.
- We are dependent on a limited number of vendors, who are often small and specialized, for raw materials, packages and standard components. We also rely on contract manufacturers around the world to manufacture certain products. Our business could continue to be adversely affected by this dependency. Specific concerns we periodically encounter with our suppliers include stoppages or delays of supply, insufficient vendor resources to supply our requirements, substitution of more expensive or less reliable products, receipt of defective parts or contaminated materials, increases in the price of supplies and an inability to obtain reduced pricing from our suppliers in response to competitive pressures. Additionally, the ability of our contract manufacturers to fulfill their obligations may be affected by economic, political or other forces that are beyond our control. Any such failure could have a material impact on our ability to meet customers' expectations and may materially impact our operating results.
- New product programs and introductions involve changing product specifications and customer requirements, unanticipated engineering complexities, difficulties in reallocating resources and overcoming resource limitations and increased complexity, which expose us to yield and product risk internally and with our suppliers.

These factors have caused considerable strain on our execution capabilities and customer relations. We have seen and could continue to see periodic difficulty responding to customer delivery expectations for some of our products, and yield and quality problems, particularly with some of our new products and higher volume products which could require additional funds and other resources to respond to these execution challenges. From time to time, we have had to divert resources from new product R&D and other functions to assist with resolving these matters. If we do not improve our performance in all of these areas, our operating results will be harmed, the commercial viability of new products may be challenged, and our customers may choose to reduce or terminate their purchases of our products and purchase additional products from our competitors.

Unfavorable, uncertain or unexpected conditions in the transition to new technologies may cause our growth forecasts to be inaccurate and/or cause fluctuations in our financial results.

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates which may not prove to be accurate. Our estimates of the market opportunities related to 5G infrastructure, 3D sensing and other developing technologies are subject to significant uncertainty and are based on assumptions and estimates, including our internal analysis, industry experience and third-party data. Accordingly, these markets may not develop in the manner or in the time periods we anticipate and our estimated market opportunities may prove to be materially inaccurate.

If domestic and global economic conditions worsen, including as a result of pricing and inflationary pressures, overall spending on 5G infrastructure, 3D sensing and other developing technologies may be reduced, which would adversely impact demand for our products in these markets. In addition, unfavorable developments with evolving laws and regulations worldwide related to such technologies may limit or slow the rate of global adoption, impede our strategy, and negatively impact our long-term expectations in these markets.

Our growth and ability to serve a significant portion of these markets is subject to many factors including our success in implementing our business strategy as well as market adoption and expansion of 5G infrastructure, 3D sensing and other applications for consumer electronics. We cannot assure you that we will be able to serve a significant portion of these markets and the growth forecasts should not be taken as indicative of our future growth. Even if the markets and rates of adoption develop in the manner or in the time periods we anticipate, if we do not have timely, competitively priced, market-accepted products available to meet our customers' planned roll-out of 5G platforms and systems, 3D sensing products and other technologies, we may miss a significant opportunity and our business, financial condition, results of operations and cash flows could be materially and adversely affected.

We may experience increased pressure on our pricing and contract terms due to our reliance on a limited number of customers for a significant portion of our sales.

We believe that we will continue to rely upon a limited number of customers for a significant portion of our revenues for the foreseeable future. Any failure by us to continue capturing a significant share of key customer sales could materially harm our business. Dependence on a limited number of customers exposes us to the risk that order reductions from any one customer can have a material adverse effect on periodic revenue. Further, to the extent that there is consolidation among communications equipment manufacturers and service providers, we will have increased dependence on fewer customers who may be able to exert increased pressure on our prices and other contract terms. Customer consolidation activity and periodic manufacturing and inventory initiatives could also create the potential for disruptions in demand for our products as a consequence of such customers streamlining, reducing or delaying purchasing decisions.

We have a strategic alliance with SICPA to market and sell our OVP and OVMP product lines for banknote anti-counterfeiting applications worldwide. A material reduction in sales, or loss of the relationship with SICPA, may harm our business and operating results as we may be unable to find a substitute marketing and sales partner or develop these capabilities ourselves in a timely manner.

Movement towards virtualized networks and software solutions may result in lower demand for our hardware products and increased competition.

The markets for our NE and SE segments are increasingly looking towards virtualized networks and software solutions. This trend may result in lower demand for our legacy hardware products. Additionally, barriers to entry are generally lower for software solutions, which may lead to increased competition for our products and services.

We face a number of risks related to our strategic transactions.

Our strategy continues to include periodic acquisitions and divestitures of businesses and technologies. Strategic transactions of this nature involve numerous risks, including the following:

- Diversion of management's attention from normal daily operations of the business;
- Potential difficulties in completing projects associated with in-process R&D;
- Difficulties in entering markets in which we have no or limited prior experience and where competitors have stronger market positions;
- Difficulties in obtaining or providing sufficient transition services and accurately projecting the time and cost associated with providing these services;
- Inability of an acquisition to further our business strategy as expected or overpay for, or otherwise not realize the expected return on, our investments;
- Expected earn-outs may not be achieved in the time frame or at the level expected or at all;
- Lack of ability to recognize or capitalize on expected growth, synergies or cost savings;
- Insufficient net revenue to offset increased expenses associated with acquisitions;
- Potential loss of key employees of the acquired companies;
- Difficulty in forecasting revenues and margins;
- Adverse public health developments, epidemic disease or pandemics in the countries in which we operate or our customers are located, including regional quarantines restricting the movement of people or goods, reductions in labor supply or staffing, the closure of facilities to protect employees, including those of our customers, disruptions to global supply chains and both our and our suppliers' ability to deliver materials and products on a timely or cost-effective basis, shipment, acceptance or verification delays, the resulting overall significant volatility and disruption of financial markets, and economic instability affecting customer spending patterns; and
- Inadequate internal control procedures and disclosure controls to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or poor integration of a target company's or business's procedures and controls.

Acquisitions may also cause us to:

- Issue common stock that would dilute our current stockholders' percentage ownership and may decrease earnings per share;
- Assume liabilities, some of which may be unknown at the time of the acquisitions;
- Record goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential periodic impairment charges;
- Incur additional debt to finance such acquisitions;
- Incur amortization expenses related to certain intangible assets; and
- Acquire, assume, or become subject to litigation related to the acquired businesses or assets.

We may not generate positive returns on our research and development strategy.

Developing our products is expensive, and the investment in product development may involve a long payback cycle. We expect to continue to invest heavily in R&D in order to expand the capabilities of 3D sensing and smart phone sensors, handheld spectrometer solution and portable test instruments, introduce new products and features and build upon our technology. We expect that our results of operations may be impacted by the timing and size of these investments. In addition, these investments may take several years to generate positive returns, if ever.

Operational Risks

Restructuring

We have from time to time engaged in restructuring activities to realign our cost base with current and anticipated future market conditions, including one recently announced for fiscal 2023. Significant risks associated with these types of actions that may impair our ability to achieve the anticipated cost reductions or disrupt our business include delays in the implementation of anticipated workforce reductions in highly regulated locations outside of the U.S. and the failure to meet operational targets due to the loss of key employees. In addition, our ability to achieve the anticipated cost savings and other benefits from these actions within the expected timeframe is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we experience delays, or if other unforeseen events occur, our business and results of operations could be adversely affected.

Management transitions and talent retention create uncertainties and could harm our business.

Management changes could adversely impact our results of operations and our customer relationships and may make recruiting for future management positions more difficult. Our executives and other key personnel are generally at-will employees and we generally do not have employment or non-compete agreements with our other employees, and we cannot assure you that we will be able to retain them. We have in the past experienced, and could continue to experience changes in our leadership team. Competition for people with the specific technical and other skills we require is significant. Moreover, we may face new and unanticipated difficulties in attracting, retaining and motivating employees in connection with the change of our headquarters to Chandler, Arizona. As remote work has become more available the competition for highly qualified talent has intensified. If we are unable to attract and retain qualified executives and employees, or to successfully integrate any newly hired personnel within our organization, we may be unable to achieve our operating objectives, which could negatively impact our financial performance and results of operations.

We face risks related to our international operations and revenue.

Our customers are located throughout the world. In addition, we have significant operations outside North America, including product development, manufacturing, sales and customer support operations.

Our international presence exposes us to certain risks, including the following:

- Fluctuations in exchange rates between the U.S. dollar and among the currencies of the countries in which we do business may adversely affect our operating results by negatively impacting our revenues or increasing our expenses;
- Our ability to comply with a wide variety of laws and regulations of the countries in which we do business, including, among other things, customs, import/export, anti-bribery, anti-competition, tax and data privacy laws, which may be subject to sudden and unexpected changes;
- Difficulties in establishing and enforcing our intellectual property rights;
- Tariffs and other trade barriers;
- Political, legal and economic instability in foreign markets, particularly in those markets in which we maintain manufacturing and product development facilities;
- Strained or worsening relations between the United States, Russia and China and related impacts on other countries;
- Difficulties in staffing and management;
- Language and cultural barriers;
- Seasonal reductions in business activities in the countries where our international customers are located;
- Integration of foreign operations;
- Longer payment cycles;
- Difficulties in management of foreign distributors; and
- Potential adverse tax consequences.

The spread of COVID-19 affected the manufacturing and shipment of goods globally. Any delay in production or delivery of our products due to an extended closure of our suppliers' plants could adversely impact our business along with delays in shipment of our products as well as increased logistics costs.

We expect that net revenue from customers outside North America will continue to account for a significant portion of our total net revenue. Lower sales levels that typically occur during the summer months in Europe and some other overseas markets may materially and adversely affect our business. In addition, the revenues we derive from many of our customers depend on international sales and further expose us to the risks associated with such international sales.

Legal, Regulatory and Compliance Risks

Certain of our products are subject to governmental and industry regulations, certifications and approvals.

The commercialization of certain of the products we design, manufacture and distribute through our OSP segment may be more costly due to required government approval and industry acceptance processes. Development of applications for our anti-counterfeiting and special effects pigments may require significant testing that could delay our sales. For example, durability testing by the automobile industry of our special effects pigments used with automotive paints can take up to three years. If we change a product for any reason, including technological changes or changes in the manufacturing process, prior approvals or certifications may be invalid and we may need to go through the approval process again. If we are unable to obtain these or other government or industry certifications in a timely manner, or at all, our operating results could be adversely affected.

U.S. Government trade actions could have an adverse impact on our business, financial position, and results of operation.

The United States and China have been engaged in protracted negotiations over the Chinese government's acts, policies, and practices related to technology transfer, intellectual property, and innovation. For example, the United States has increased tariffs on certain categories of high-tech and consumer goods imported from China pursuant to Section 301 of the Trade Act of 1974, including a current 25% tariff on List 1, List 2 and List 3 goods, which lists cover certain materials and/or products that we import from China.

On May 16, 2019, Huawei Technologies Co. Ltd. and 68 designated non-U.S. affiliates (collectively, Huawei) were added to the Entity List of the Bureau of Industry and Security of the U.S. Department of Commerce (BIS), which imposes limitations on the supply of certain U.S. items and product support to Huawei. On August 17, 2020, BIS issued final rules that further restrict access by Huawei to items produced domestically and abroad from U.S. technology and software. Certain products of VIAVI are subject to the restrictions; however, the impact is not expected to be material to our overall operations.

These measures, along with any additional tariffs or other trade actions that may be implemented, may increase the cost of certain materials and/or products that we import from China, thereby adversely affecting our profitability. These actions could require us to raise our prices, which could decrease demand for our products. As a result, these actions, including potential retaliatory measures by China and further escalation into a potential "trade war", may adversely impact our business. While recent US export controls on China's semiconductor and artificial intelligence industries may have an indirect impact on VIAVI, the implications of such controls are still being evaluated and are not expected to have a material impact on our consolidated annual revenues.

Furthermore, the geopolitical and economic uncertainty and/or instability that may result from changes in the relationship among the United States, Taiwan and China, may, directly or indirectly, materially harm our business, financial condition and results of operations. For example, certain of our suppliers are dependent on products sourced from Taiwan which has been distinguished in its prevalence in certain global markets, most specifically semiconductor manufacturing. Hence, greater restrictions and/or disruptions of our suppliers' ability to operate facilities and/or do business in these jurisdictions may increase the cost of certain materials and/or limit the supply of products and may result in deterioration of our profit margins, a potential need to increase our pricing and, in so doing, may decrease demand for our products and thereby adversely impact our revenue or profitability.

Due to the ongoing conflict between Russia and Ukraine, the U.S., E.U. and U.K. have broadened restrictions on exports to Russia, thereby blocking shipments of technology, telecommunications and consumer electronics products to Russia. This caused us to suspend transactions in the region effective February 2022 and has negatively impacted our business in the region. Sales in the region are not material to our total consolidated revenues or net income and we are not aware of any specific event or circumstances that would require an update to the estimates or judgments or a revision of the carrying value of assets or liabilities at this time. However, these estimates may change, as new events occur and additional information becomes available. Actual results may differ materially from these estimates, assumptions or conditions due to risks and uncertainties, including the ongoing situation in Ukraine as well as the potential for additional trade actions or retaliatory cyber-attacks aimed at infrastructure or supply chains, and the impact on our future operations and results in the region remains uncertain.

Failure to maintain satisfactory compliance with certain privacy and data protections laws and regulations may harm our business.

Complex local, state, national, foreign, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These privacy laws and regulations are quickly evolving, with new or modified laws and regulations proposed and implemented frequently and existing laws and regulations subject to new or different interpretations. In addition, our legal and regulatory obligations in jurisdictions outside of the U.S. are subject to unexpected changes, including the potential for regulatory or other governmental entities to enact new or additional laws or regulations, to issue rulings that invalidate prior laws or regulations, or to increase penalties significantly. Complying with these laws and regulations can be costly and can impede the development and offering of new products and services. For example, the E.U. General Data Protection Regulation (GDPR), which became effective in May 2018, imposes stringent data protection requirements and provides for significant penalties for noncompliance. Additionally, California enacted legislation, the California Consumer Privacy Act (CCPA), which became effective January 1, 2020. The CCPA requires, among other things, covered companies to provide new disclosures to California consumers, and allow such consumers new abilities to opt-out of certain sales of personal data. The CCPA also provides for civil penalties for violations, as well as a private right of action for data breaches that may increase data breach litigation. Further, there are a number of new state privacy laws that have gone into effect in 2023, the California Privacy Rights Act, expanding the CCPA to provide for certain obligations with respect to California employee's sensitive personal data and an expansion of rights, including the right to limit, correct and request deletion of certain sensitive personal data, the Virginia Consumer Data Protection Act, the Utah Consumer Privacy Act, the Colorado Privacy Act and the Connecticut Data Privacy Act, and a number of other states have passed laws that will go into effect in the next few years, including Tennessee, Montana, Indiana and Iowa and many more that are considering similar laws. The new state privacy laws will impose additional data protection obligations on covered businesses, including additional consumer rights, limitations on data uses, new audit requirements for higher risk data, and opt outs for certain uses of sensitive data. The new and proposed privacy laws may result in further uncertainty and would require us to incur additional expenditures to comply. These regulations and legislative developments have potentially far-reaching consequences and may require us to modify our data management practices and incur substantial compliance expense.

Our failure to comply with applicable laws and regulations or other obligations to which we may be subject relating to personal data, or to protect personal data from unauthorized access, use, or other processing, could result in enforcement actions and regulatory investigations against us, claims for damages by customers and other affected individuals, fines, damage to our reputation, and loss of goodwill, any of which could have a material adverse effect on our operations, financial performance, and business.

Information Security, Technology and Intellectual Property Risks

Our business and operations could be adversely impacted in the event of a failure of information technology infrastructure of ours, our suppliers, customers, vendors or our service providers.

We rely upon the capacity, reliability and security of our information technology infrastructure and our ability to expand and continually update this infrastructure in response to our changing needs. In some cases, we rely upon third-party hosting and support services to meet these needs. The internet has experienced increasingly sophisticated and damaging threats in the form of phishing emails, malware, malicious websites, ransomware, exploitation of application vulnerabilities, and nation-state attacks. It is also becoming more common for these attacks to leverage previously unknown vulnerabilities. The growing and evolving cyber-risk environment means that individuals, companies, and organizations of all sizes, including ourselves, our customers, suppliers and our hosting and support partners, are increasingly vulnerable to attacks and disruptions on their networks and systems by a wide range of actors on an ongoing and regular basis. We also design and manage IT systems and products that contain IT systems for various customers, and generally face the same threats for these systems as for our own internal systems.

We maintain information security tools and technologies, staff, policies and procedures for managing risk to our networks and information systems, and conduct employee training on cybersecurity to mitigate persistent and continuously evolving cybersecurity threats. Our network security controls are comprised of administrative, physical and technical controls, which include, but are not limited to, the implementation of firewalls, anti-virus protection, patches, log monitors, routine backups, off-site storage, network audits and other routine updates and modifications. We also routinely monitor and develop our internal information technology systems to address risks to our information systems. Despite our implementation of these and other security measures and those of our third-party vendors, our systems are regularly targeted by bad actors and have been subject to damages from computer viruses, natural disasters, unauthorized access and other similar disruptions and attacks that continue to emerge and evolve. Any system failure, accident or security breach could result in disruptions to our business processes, network degradation, and system down time, along with the potential that a third-party will gain unauthorized access to, or acquire intellectual property, proprietary business information, and data related to our employees, customers, suppliers, and business partners, including personal data. To the extent that any disruption, degradation, downtime or other security event results in a loss or damage to our data or systems, or in inappropriate disclosure of confidential or personal information, it could adversely impact us and our clients, potentially resulting in, among other things, financial losses, loss of customers or business, our inability to transact business on behalf of our clients, adverse impact on our brand and reputation, violations of applicable privacy and other laws, regulatory fines, penalties, litigation, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs. We may also incur additional costs related to cybersecurity risk management and remediation. There can be no assurance that we or our service providers, if applicable, will not suffer losses relating to cyber-attacks or other information security breaches in the future or that our insurance coverage will be adequate to cover all the costs resulting from such events. No assurances can be given that our efforts to reduce the risk of such attacks or to detect attacks that occur will be successful.

If we have insufficient proprietary rights or if we fail to protect those we have, our business would be materially harmed.

We seek to protect our products and our product roadmaps in part by developing and/or securing proprietary rights relating to those products, including patents, trade secrets, know-how and continuing technological innovation. The steps taken by us to protect our intellectual property may not adequately prevent misappropriation or ensure that others will not develop competitive technologies or products. Other companies may be investigating or developing other technologies that are similar to our own. It is possible that patents may not be issued from any of our pending applications or those we may file in the future and, if patents are issued, the claims allowed may not be sufficiently broad to deter or prohibit others from making, using or selling products that are similar to ours. We do not own patents in every country in which we sell or distribute our products, and thus others may be able to offer identical products in countries where we do not have intellectual property protection. In addition, the laws of some territories in which our products are or may be developed, manufactured or sold, including Europe, Asia-Pacific or Latin America, may not protect our products and intellectual property rights to the same extent as the laws of the United States.

Any patents issued to us may be challenged, invalidated or circumvented. Additionally, we are currently a licensee in all of our operating segments for a number of third-party technologies, software and intellectual property rights from academic institutions, our competitors and others, and are required to pay royalties to these licensors for the use thereof. Unless we are able to obtain such licenses on commercially reasonable terms, patents or other intellectual property held by others could inhibit our development of new products, impede the sale of some of our current products, substantially increase the cost to provide these products to our customers, and could have a significant adverse impact on our operating results. In the past, licenses generally have been available to us where third-party technology was necessary or useful for the development or production of our products. In the future licenses to third-party technology may not be available on commercially reasonable terms, if at all.

Our products may be subject to claims that they infringe the intellectual property rights of others.

Lawsuits and allegations of patent infringement and violation of other intellectual property rights occur in our industry on a regular basis. We have received in the past, and anticipate that we will receive in the future, notices from third parties claiming that our products infringe their proprietary rights. Over the past several years there has been a marked increase in the number and potential severity of third-party patent infringement claims, primarily from two distinct sources. First, large technology companies, including some of our customers and competitors, are seeking to monetize their patent portfolios and have developed large internal organizations that have approached us with demands to enter into license agreements. Second, patent-holding companies, entities that do not make or sell products (often referred to as “patent trolls”), have claimed that our products infringe upon their proprietary rights. We will continue to respond to these claims in the course of our business operations. In the past, the resolution of these disputes has not had a material adverse impact on our business or financial condition; however, this may not be the case in the future. Further, the litigation or settlement of these matters, regardless of the merit of the claims, could result in significant expense to us and divert the efforts of our technical and management personnel, whether or not we are successful. If we are unsuccessful, we could be required to expend significant resources to develop non-infringing technology or to obtain licenses to the technology that is the subject of the litigation. We may not be successful in such development, or such licenses may not be available on terms acceptable to us, if at all. Without such a license, we could be enjoined from future sales of the infringing product or products, which could adversely affect our revenues and operating results.

The use of open-source software in our products, as well as those of our suppliers, manufacturers and customers, may expose us to additional risks and harm our intellectual property position.

Certain of the software and/or firmware that we use and distribute (as well as that of our suppliers, manufacturers and customers) may be, be derived from, or contain, “open source” software, which is software that is generally made available to the public by its authors and/or other third parties. Such open-source software is often made available under licenses which impose obligations in the event the software or derivative works thereof are distributed or re-distributed. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the forms of license customarily used to protect our own software products. In the event that a court rules that these licenses are unenforceable, or in the event the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work. Additionally, open-source licenses are subject to occasional revision. In the event future iterations of open-source software are made available under a revised license, such license revisions may adversely affect our ability to use such future iterations.

Environmental, Social and Governance Risks

We may be subject to environmental liabilities which could increase our expenses and harm our operating results.

We are subject to various federal, state and foreign laws and regulations, including those governing pollution, protection of human health, the environment and recently, those restricting the presence of certain substances in electronic products as well as holding producers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. Such laws and regulations have been passed in several jurisdictions in which we operate, are often complex and are subject to frequent changes. We will need to ensure that we comply with such laws and regulations as they are enacted, as well as all environmental laws and regulations, and as appropriate or required, that our component suppliers also comply with such laws and regulations. If we fail to comply with such laws, we could face sanctions for such noncompliance, and our customers may refuse to purchase our products, which would have a materially adverse effect on our business, financial condition and results of operations.

With respect to compliance with environmental laws and regulations in general, we have incurred, and in the future could incur, substantial costs for the cleanup of contaminated properties, either those we own or operate or to which we have sent wastes in the past, or to comply with such environmental laws and regulations. Additionally, we could be subject to disruptions to our operations and logistics as a result of such clean-up or compliance obligations. If we were found to be in violation of these laws, we could be subject to governmental fines and liability for damages resulting from such violations. If we have to make significant capital expenditures to comply with environmental laws, or if we are subject to significant expenditures in connection with a violation of these laws, our financial condition or operating results could be materially adversely impacted.

Our business is subject to evolving regulations and expectations with respect to environmental, social and governance matters that could expose us to numerous risks.

Increasingly regulators, customers, investors, employees and other stakeholders are focusing on ESG-related matters and related disclosures. These developments have resulted in, and are likely to continue to result in, increased general and administrative expenses and increased management time and attention spent complying with or meeting ESG-related requirements and expectations. For example, developing and acting on ESG-related initiatives and collecting, measuring and reporting ESG-related information and metrics can be costly, difficult and time consuming and is subject to evolving reporting standards, including the SEC's proposed climate-related reporting requirements. We may also communicate certain initiatives and goals regarding ESG-related matters in our SEC filings or in other public disclosures. These ESG-related initiatives and goals could be difficult and expensive to implement, the technologies needed to implement them may not be cost effective and may not advance at a sufficient pace, and we could be criticized for the accuracy, adequacy or completeness of the disclosure. Further, statements about our ESG-related initiatives and goals, and progress against those goals, may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future. In addition, we could be criticized for the scope or nature of such initiatives or goals, or for any revisions to these goals. If our ESG-related data, processes and reporting are incomplete or inaccurate, or if we fail to achieve progress with respect to our ESG-related goals on a timely basis, or at all, our reputation, business, financial performance and growth could be adversely affected.

We may be subject to risks related to climate change, natural disasters and catastrophic events.

We operate in geographic regions which face a number of climate and environmental challenges. Our new corporate headquarters is located in Chandler, Arizona, a desert climate, subject to extreme heat and drought. The geographic location of our Northern California offices and production facilities subject them to drought, earthquake and wildfire risks. It is impossible to predict the timing, magnitude or location of such natural disasters or their impacts on the local economy and on our operations. If a major earthquake, wildfire or other natural disaster were to damage or destroy our facilities or manufacturing equipment, we may experience potential impacts ranging from production and shipping delays to lost profits and revenues. In October 2017 and again in October 2019, we temporarily closed our Santa Rosa, California facility resulting in production stoppage, due to wildfires in the region and the facility's close proximity to the wildfire evacuation zone. The location of our production facility could subject us to production delays and/or equipment and property damage. Moreover, Pacific Gas and Electric (PG&E), the public electric utility in our Northern California region, has previously implemented and may continue to implement widespread blackouts during the peak wildfire season to avoid and contain wildfires sparked during strong wind events by downed power lines or equipment failure. Ongoing blackouts, particularly if prolonged or frequent, could impact our operations going forward.

Risks Related to our Liquidity and Indebtedness

Any deterioration or disruption of the capital and credit markets may adversely affect our access to sources of funding.

Global economic conditions have caused and may cause volatility and disruptions in the capital and credit markets. When the capital or credit markets deteriorate or are disrupted, our ability to incur additional indebtedness to fund a portion of our working capital needs and other general corporate purposes, or to refinance maturing obligations as they become due, may be constrained. In the event that we were to seek to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time, if at all. We may seek to access the capital or credit markets whenever conditions are favorable, even if we do not have an immediate need for additional capital at that time. For example, in December 2021, we entered into a \$300 million asset-based secured credit facility which has certain limitations based on our borrowing capacity. Our access to the financial markets and the pricing and terms we receive in the financial markets could be adversely impacted by various factors, including changes in financial markets and interest rates. In addition, if we do access the capital or credit markets, agreements governing any borrowing arrangement could contain covenants restricting our operations.

Our notes increased our overall leverage and our convertible notes could dilute our existing stockholders and lower our reported earnings per share.

The issuance of our 1.00% Senior Convertible Notes due 2024, our 1.625% Senior Convertible Notes due 2026 and our 3.75% Senior Notes due 2029 (together the “Notes”) substantially increased our principal payment obligations. The degree to which we are leveraged could materially and adversely affect our ability to successfully obtain financing for working capital, acquisitions or other purposes and could make us more vulnerable to industry downturns and competitive pressures. In addition, the holders of the 2024 and 2026 Notes are entitled to convert the Notes into shares of our common stock or a combination of cash and shares of common stock under certain circumstances which would dilute our existing stockholders and lower our reported per share earnings.

Our ability to make payments on our indebtedness when due, to make payments upon conversion with respect to our convertible senior notes or to refinance our indebtedness as we may need or desire, depends on our future performance and our ability to generate cash flow from operations, which is subject to economic, financial, competitive and other factors beyond our control. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. We may not be able to engage in these activities on desirable terms or at all, which may result in a default on our existing or future indebtedness and harm our financial condition and operating results.

Our outstanding indebtedness may limit our operational and financial flexibility.

Our level of indebtedness could have important consequences, including:

- Impairing our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes;
- Requiring us to dedicate a substantial portion of our operating cash flow to paying principal and interest on our indebtedness, thereby reducing the funds available for operations;
- Limiting our ability to grow and make capital expenditures due to the financial covenants contained in our debt arrangements;
- Impairing our ability to adjust rapidly to changing market conditions, invest in new or developing technologies, or take advantage of significant business opportunities that may arise;
- Making us more vulnerable if a general economic downturn occurs or if our business experiences difficulties; and
- Resulting in an event of default if we fail to satisfy our obligations under the Notes or our other debt or fail to comply with the financial and other restrictive covenants contained in the indentures governing the Notes, or any other debt instruments, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

We may not generate sufficient cash flow to meet our debt service and working capital requirements, which may expose us to the risk of default under our debt obligations.

We will need to implement our business strategy successfully on a timely basis to meet our debt service and working capital needs. We may not successfully implement our business strategy, and even if we do, we may not realize the anticipated results of our strategy and generate sufficient operating cash flow to meet our debt service obligations and working capital needs. In addition, our ability to make scheduled payments on our indebtedness, including the notes, is affected by general and regional economic, financial, competitive, business and other factors beyond our control.

In the event our cash flow is inadequate to meet our debt service and working capital requirements, we may be required, to the extent permitted under the indentures covering the Notes and any other debt agreements, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets or reduce or delay planned capital or operating expenditures. Any insufficient cash flow may make it more difficult for us to obtain financing on terms that are acceptable to us, or at all.

Despite our current level of indebtedness, we and our subsidiaries may still be able to incur substantially more debt.

We and our subsidiaries may be able to incur significant additional indebtedness in the future. The indentures that govern the Notes and the agreement that governs our secured credit facility contain restrictions on the incurrence of additional indebtedness, which are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness under the agreements governing our existing debt.

The terms of the indentures that govern the Notes and the agreement that governs our secured credit facility restrict our current and future operations.

The indentures governing the Notes and the agreement governing the secured credit facility contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to:

- Incur or guarantee additional indebtedness;
- Incur or suffer to exist liens securing indebtedness;
- Make investments;
- Consolidate, merge or transfer all or substantially all of our assets;
- Sell assets;
- Pay dividends or other distributions on, redeem or repurchase capital stock;
- Enter into transactions with affiliates;
- Amend, modify, prepay or redeem subordinated indebtedness;
- Enter into certain restrictive agreements;
- Engage in a new line of business;
- Amend certain material agreements, including material leases and debt agreements; and
- Enter into sale leaseback transactions.

Tax Risks

Our ability to use our net operating loss carryforwards to offset future taxable income may be subject to certain limitations and/or changes in regulations.

Changes in U.S. federal income or other tax laws or the interpretation of tax laws, including the Inflation Reduction Act of 2022, as recently passed by Congress, may impact our tax liabilities. Utilization of our NOLs and tax credit carryforwards may be subject to a substantial annual limitation if the ownership change limitations under Sections 382 and 383 of the Internal Revenue Code and similar state provisions are triggered by changes in the ownership of our capital stock. In general, an ownership change occurs if there is a cumulative change in our ownership by “5-percent shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. Accordingly, purchases of our capital stock by others could limit our ability to utilize our NOLs and tax credit carryforwards in the future.

Furthermore, we may not be able to generate sufficient taxable income to utilize our NOLs and tax credit carryforwards before they expire. Due to uncertainty regarding the timing and extent of our future profitability, we continue to record a valuation allowance to offset our U.S. and certain of our foreign deferred tax assets because of uncertainty related to our ability to utilize our NOLs and tax credit carryforwards before they expire.

If any of these events occur, we may not derive some or all of the expected benefits from our NOLs and tax credit carryforwards.

General Risks

Certain provisions in our charter and under Delaware laws could hinder a takeover attempt.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short-term, to the interests of the stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws contain provisions providing for the limitations of liability and indemnification of our directors and officers, allowing vacancies on our Board of Directors to be filled by the vote of a majority of the remaining directors, granting our Board of Directors the authority to establish additional series of preferred stock and to designate the rights, preferences and privileges of such shares (commonly known as “blank check preferred”) and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders, which may only be called by the Chairman of the Board, the Chief Executive Officer or the Board of Directors. These provisions may also have the effect of deterring hostile takeovers or delaying changes in control or change in our management.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Not applicable.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the heading "Legal Proceedings" in Note 18. Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8 of this Report is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Select Market under the symbol (VIAV). As of July 29, 2023, we had 1,747 holders of record of our common stock. We have not paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future.

The following table provides stock repurchase activity during the three months ended July 1, 2023 (in millions, except per share amounts):

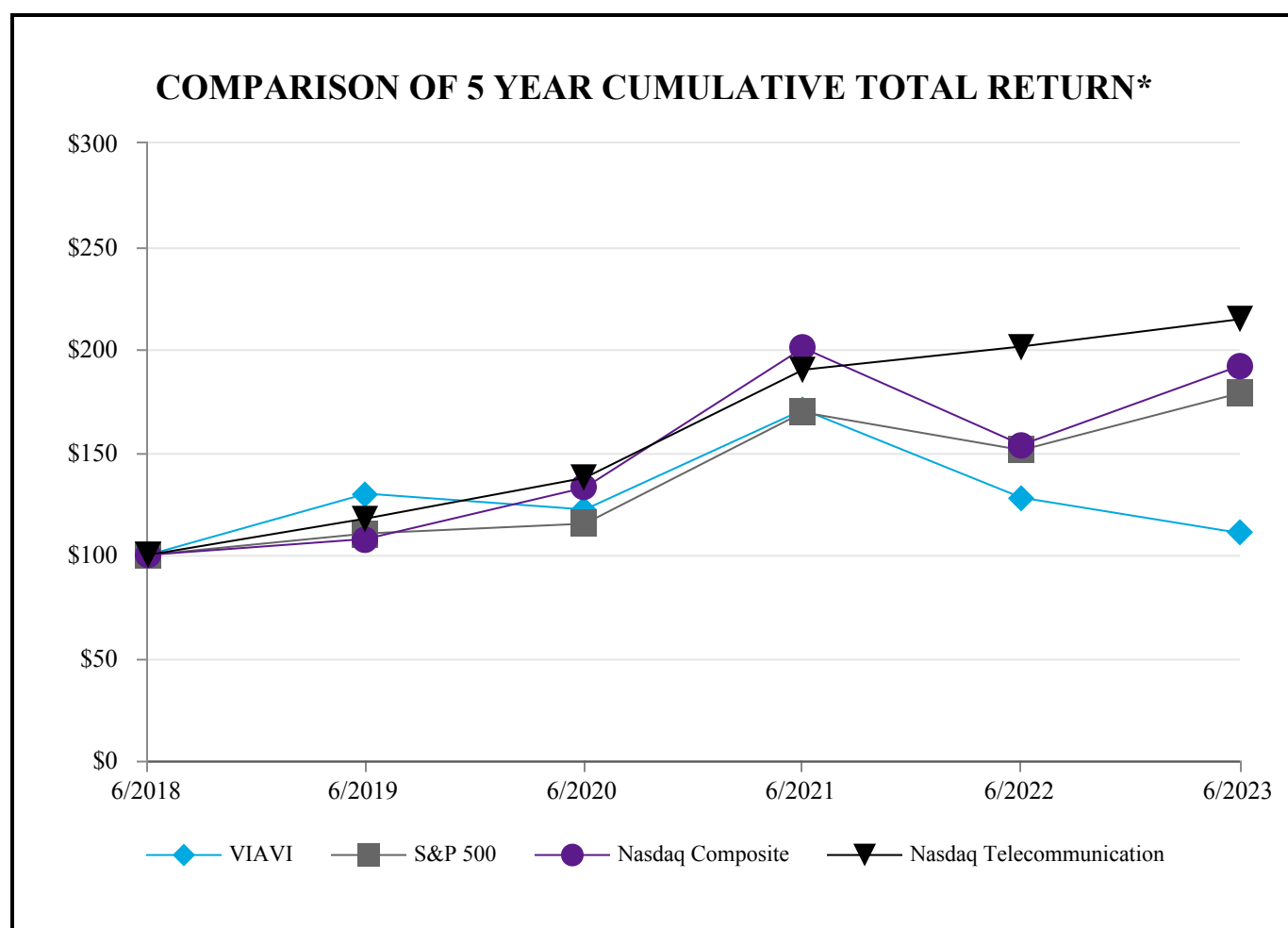
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Dollar Value of Shares that May Still Be Purchased Under the Plans or Programs ⁽¹⁾
April 2 - April 29, 2023	—	—	—	\$ 244.8
April 30- May 27, 2023	0.3	\$9.74	0.3	\$ 242.2
May 28 - July 1, 2023	0.7	\$10.02	0.7	\$ 234.8
Total	<u>1.0</u>		<u>1.0</u>	

(1) Share repurchases made under our 2022 Repurchase Plan for up to \$300 million of our common stock, which was announced September 11, 2022. Refer to “Note 15. Stockholders' Equity” of Item 8 for more details.

STOCK PERFORMANCE GRAPH

The information contained in the following graph shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference in such filing.

The following graph and table set forth the total cumulative return, assuming reinvestment of dividends, on an investment of \$100 in June 2018 and ending June 2023 in: (i) our Common Stock, (ii) the S&P 500 Index, (iii) the Nasdaq Stock Market (U.S.) Index, and (iv) the Nasdaq Telecommunications Index. Historical stock price performance is not necessarily indicative of future stock price performance.



*\$100 invested on 6/30/18 in stock or index.

	6/2018	6/2019	6/2020	6/2021	6/2022	6/2023
VIAVI	\$100.00	\$129.79	\$122.07	\$170.61	\$127.83	\$110.64
S&P 500	\$100.00	\$110.42	\$115.19	\$169.29	\$150.97	\$178.66
Nasdaq Composite	\$100.00	\$107.78	\$132.70	\$200.58	\$153.53	\$191.93
Nasdaq Telecommunications	\$100.00	\$117.72	\$137.47	\$190.00	\$201.30	\$214.56

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the period ended July 1, 2023. Unless otherwise noted, all references herein for the years 2023, 2022, and 2021 represent the fiscal years ended July 1, 2023, July 2, 2022, and July 3, 2021, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting estimates affect our financial statements. Factors that could cause or contribute to these differences include those discussed below and in this Annual Report on Form 10-K, particularly in “Risk Factors” and “Forward-Looking Statements.”

This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. Our actual results could differ materially from those discussed in the forward-looking statements.

OVERVIEW

We are a global provider of network test, monitoring, and assurance solutions for communications service providers (CSPs), hyperscalers, network equipment manufacturers (NEMs), original equipment manufacturers (OEMs), government and avionics. We help these customers harness the power of instruments, automation, intelligence, and virtualization. VIAVI is also a leader in light management technologies for 3D sensing for the anti-counterfeiting, consumer electronics, industrial, automotive, government and aerospace applications.

To serve our markets, we operate the following business segments:

- Network Enablement (NE);
- Service Enablement (SE); and
- Optical Security and Performance Products (OSP).

During fiscal 2023, we experienced a constrained demand outlook and continued inflationary pressures. Weakness in CSP and NEM spending created headwinds for our NE segment. Softening demand for anti-counterfeiting driven by fiscal tightening as central banks continue to normalize currency printing from elevated levels during the pandemic created pressure on OSP revenues. Despite the slowdown in overall service provider spend, some service providers have begun to free up funds for network maintenance and optimization, which benefits VIAVI’s NSE business segment.

Any prolonged disruption of manufacturing of our products, commerce and related activity or significant decrease in demand for our products could materially and adversely affect our results of business, operations, and financial conditions.

Our financial results and long-term growth model will continue to be driven by revenue growth, non-GAAP operating income, non-GAAP operating margin, non-GAAP diluted earnings per share (EPS) and cash flow from operations. We believe these key operating metrics are useful to investors because management uses these metrics to assess the growth of our business and the effectiveness of our marketing and operational strategies.

Looking Ahead to 2024

As we look forward to the year ahead, our focus remains on executing against our strategic priorities to drive revenue and earnings growth, capture market share and continue to optimize our capital structure. We remain positive on our long-term growth drivers in 5G Wireless, Fiber, 3D Sensing and Resilient Position, Navigation and Timing (PNT). We will continue to focus on executing against our strategic priorities highlighted during our September 2022 Analyst Day Event such as our plans to:

- Defend and consolidate leadership in core business segments;
- Invest in secular trends to drive growth and expand Total Addressable Market (TAM);
- Extend VIAVI technologies and platforms into adjacent markets and applications; and
- Continue productivity improvement in Operations, Research & Development (R&D) and Selling, General and Administrative (SG&A).

FINANCIAL HIGHLIGHTS

Our fiscal 2023 results included the following notable items:

- Net revenues of \$1.1 billion, down \$186.3 million or 14.4% year-over-year
- GAAP operating margin of 7.4%, down 690 bps year-over-year
- Non-GAAP operating margin of 15.6%, down 660 bps year-over-year
- GAAP Diluted EPS of \$0.11, up \$0.04 or 57.1% year-over-year
- Non-GAAP Diluted EPS of \$0.55, down \$0.40 or 42.1% year-over-year

In fiscal 2023, VIAVI experienced a constrained demand outlook and end market volatility. Net revenue of \$1.1 billion, down \$186.3 million or 14.4%, demonstrated the challenging macro-economic environment faced by our NE and OSP segments.

VIAVI's fiscal 2023 GAAP operating margin of 7.4% was down 690 bps compared to fiscal 2022 due to the decline in revenues, partially offset by lower operating expenses. Non-GAAP operating margin of 15.6% decreased 660 basis points largely due to a decline in revenue partially offset by lower operating expenses.

GAAP Diluted EPS of \$0.11 increased 57.1%, or \$0.04, from fiscal 2022 largely due to the loss incurred in connection with the repurchase of certain 1.00% and 1.75% Senior Convertible Notes in fiscal 2022. Non-GAAP Diluted EPS of \$0.55 decreased 42.1% or \$0.40 from a record of \$0.95 in fiscal 2022 due to the decline in revenues.

In fiscal 2023, we generated \$114.1 million in operating cash flow and deployed \$51.1 million or 4.6% of revenues towards capital expenditures. We further improved our balance sheet by retiring the remaining 1.75% 2023 Senior Convertible Notes and partially exchanging the 1.0% 2024 Senior Convertible Notes at comparable terms into 1.625% 2026 Senior Convertible Notes. We continued to execute our capital allocation strategy by deploying \$72.3 million towards acquisitions and also repurchasing 7.3 million shares of our common stock for \$83.9 million.

A reconciliation of GAAP financial measures to Non-GAAP financial measures is provided below (in millions, except EPS amounts):

	Years Ended			
	July 1, 2023		July 2, 2022	
	Operating Income	Operating Margin	Operating Income	Operating Margin
GAAP measures	\$ 82.4	7.4 %	\$ 185.0	14.3 %
Stock-based compensation	51.2	4.7 %	52.3	4.1 %
Change in fair value of contingent liability	(4.5)	(0.4)%	0.3	— %
Other (benefits) charges unrelated to core operating performance ⁽¹⁾	(2.0)	(0.2)%	9.6	0.7 %
Amortization of intangibles	33.3	3.0 %	39.7	3.1 %
Restructuring and related charges (benefits)	12.1	1.1 %	(0.1)	— %
Total related to Cost of Revenue and Operating Expenses	90.1	8.2 %	101.8	7.9 %
Non-GAAP measures	\$ 172.5	15.6 %	\$ 286.8	22.2 %

	Years Ended			
	July 1, 2023		July 2, 2022	
	Net Income	Diluted EPS	Net Income	Diluted EPS
GAAP measures	\$ 25.5	\$ 0.11	\$ 15.5	\$ 0.07
Items reconciling GAAP net income and EPS to non-GAAP net income and EPS:				
Stock-based compensation	51.2	0.23	52.3	0.22
Change in fair value of contingent liability	(4.5)	(0.02)	0.3	—
Other (benefits) charges unrelated to core operating performance ⁽¹⁾	(2.0)	(0.01)	9.6	0.04
Amortization of intangibles	33.3	0.15	39.7	0.17
Restructuring and related charges (benefits)	12.1	0.05	(0.1)	—
Non-cash interest expense and other expense ⁽²⁾	3.9	0.02	102.2	0.43
Benefit from income taxes	5.2	0.02	5.8	0.02
Total related to Net income and EPS	99.2	0.44	209.8	0.88
Non-GAAP measures	\$ 124.7	\$ 0.55	\$ 225.3	\$ 0.95
Shares used in per share calculation for Non-GAAP EPS		226.6		238.2

(1) Other items include (benefits) charges unrelated to core operating performance primarily consisting of certain acquisition and integration related charges, transformational initiatives such as site consolidations, accretion of debt discount, intangible impairment and loss on disposal of long-lived assets.

(2) The Company incurred a loss of \$2.2 million for the twelve months ended July 1, 2023 in connection with the modification of certain 1.00% Senior Convertible Notes. The Company incurred a loss of \$101.8M for the twelve months ended July 2, 2022 in connection with the repurchase of certain 1.00% and 1.75% Senior Convertible Notes. The Company eliminates this in calculating non-GAAP net income and non-GAAP EPS, because it believes that in so doing, it can provide investors a clearer and more consistent view of the Company's core operating performance.

Use of Non-GAAP (Adjusted) Financial Measures

The Company provides non-GAAP operating income, non-GAAP operating margin, non-GAAP net income and non-GAAP EPS financial measures as supplemental information regarding the Company's operational performance. The Company uses the measures disclosed in this Report to evaluate the Company's historical and prospective financial performance, as well as its performance relative to its competitors. Specifically, management uses these items to further its own understanding of the Company's core operating performance, which the Company believes represent its performance in the ordinary, ongoing and customary course of its operations. Accordingly, management excludes from core operating performance items such as those relating to certain purchase price accounting adjustments, amortization of acquisition-related intangibles, stock-based compensation, legal settlements, restructuring, changes in fair value of contingent consideration liabilities and certain investing expenses and other activities that management believes are not reflective of such ordinary, ongoing and core operating activities.

The Company believes providing this additional information allows investors to see Company results through the eyes of management. The Company further believes that providing this information allows investors to better understand the Company's financial performance and, importantly, to evaluate the efficacy of the methodology and information used by management to evaluate and measure such performance.

The non-GAAP adjustments described in this report are excluded by the Company from its GAAP financial measures because the Company believes excluding these items enables investors to evaluate more clearly and consistently the Company's core operational performance. The non-GAAP adjustments are outlined below.

Cost of revenues, costs of research and development and costs of selling, general and administrative: The Company's GAAP presentation of operating expenses may include (i) additional depreciation and amortization from changes in estimated useful life and the write-down of certain property, equipment and intangibles that have been identified for disposal but remained in use until the date of disposal, (ii) workforce related charges such as severance, retention bonuses and employee relocation costs related to formal restructuring plans, (iii) costs for facilities not required for ongoing operations, and costs related to the relocation of certain equipment from these facilities and/or contract manufacturer facilities, (iv) stock-based compensation, (v) amortization expense related to acquired intangibles, (vi) changes in fair value of contingent consideration liabilities and (vii) other charges unrelated to our core operating performance comprised mainly of acquisition related transaction costs, integration costs related to acquired entities, litigation and legal settlements and other costs and contingencies unrelated to current and future operations, including transformational initiatives such as the implementation of simplified automated processes, site consolidations, and reorganizations. The Company excludes these items in calculating non-GAAP operating margin, non-GAAP net income and non-GAAP EPS.

Non-cash interest expense and other expense: The Company excludes certain investing expenses and non-cash activities that management believes are not reflective of such ordinary, ongoing and core operating activities, in calculating non-GAAP net income and non-GAAP EPS.

Income tax expense or benefit: The Company excludes certain non-cash tax expense or benefit items, such as the utilization of net operating losses where valuation allowances were released, intra-period tax allocation benefit and the tax effect for amortization of non-tax deductible intangible assets, in calculating non-GAAP net income and non-GAAP EPS.

Non-GAAP financial measures are not in accordance with, preferable to, or an alternative for, generally accepted accounting principles in the United States. The GAAP measure most directly comparable to non-GAAP operating income is operating income. The GAAP measure most directly comparable to non-GAAP operating margin is operating margin. The GAAP measure most directly comparable to non-GAAP net income is net income. The GAAP measure most directly comparable to non-GAAP EPS is earnings per share. The Company believes these GAAP measures alone are not fully indicative of its core operating expenses and performance and that providing non-GAAP financial measures in conjunction with GAAP measures provides valuable supplemental information regarding the Company's overall performance.

RESULTS OF OPERATIONS

This section of this Annual Report on Form 10-K generally discusses the results of operations for the fiscal year ended July 1, 2023 and July 2, 2022 and year-to-year comparisons between such fiscal years. Discussions of the year-to-year comparisons between the fiscal year ended July 2, 2022 and July 3, 2021, that are not included in this Annual Report on Form 10-K, can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 2, 2022.

The results of operations for the current period are not necessarily indicative of results to be expected for future periods. The following table summarizes selected Consolidated Statements of Operations items as a percentage of net revenue:

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Segment net revenue:			
Network Enablement	63.0 %	65.4 %	62.3 %
Service Enablement	9.4	8.0	7.6
Optical Security and Performance	27.6	26.6	30.1
Net revenue	100.0	100.0	100.0
Cost of revenues	40.0	37.9	37.6
Amortization of acquired technologies	2.2	2.3	2.8
Gross profit	57.8	59.8	59.6
Operating expenses:			
Research and development	18.7	16.5	16.9
Selling, general and administrative	29.7	28.3	28.2
Amortization of other intangibles	0.8	0.7	2.8
Restructuring and related charges (benefits)	1.2	—	(0.1)
Total operating expenses	50.4	45.5	47.8
Income from operations	7.4	14.3	11.8
Loss on convertible note settlement	—	(7.9)	—
Loss on convertible note modification	(0.2)	—	—
Interest and other income, net	0.7	0.4	0.3
Interest expense	(2.4)	(1.8)	(1.2)
Income before income taxes	5.5	5.0	10.9
Provision for income taxes	3.2	3.8	5.3
Net income	2.3 %	1.2 %	5.6 %

Financial Data for Fiscal 2023, 2022 and 2021

The following table summarizes selected Consolidated Statement of Operations items (in millions, except for percentages):

	2023	2022	Change	Percent Change	2022	2021	Change	Percent Change
Segment net revenue:								
NE	\$ 697.5	\$ 845.8	\$ (148.3)	(17.5)%	\$ 845.8	\$ 746.6	\$ 99.2	13.3 %
SE	103.7	103.3	0.4	0.4 %	103.3	91.3	12.0	13.1 %
OSP	304.9	343.3	(38.4)	(11.2)%	343.3	361.0	(17.7)	(4.9)%
Net revenue	<u>\$1,106.1</u>	<u>\$1,292.4</u>	<u>\$ (186.3)</u>	<u>(14.4)%</u>	<u>\$1,292.4</u>	<u>\$1,198.9</u>	<u>\$ 93.5</u>	<u>7.8 %</u>
Amortization of acquired technologies	\$ 24.6	\$ 30.0	\$ (5.4)	(18.0)%	\$ 30.0	\$ 33.2	\$ (3.2)	(9.6)%
Percentage of net revenue	2.2 %	2.3 %			2.3 %	2.8 %		
Gross profit	\$ 638.8	\$ 773.5	\$ (134.7)	(17.4)%	\$ 773.5	\$ 714.4	\$ 59.1	8.3 %
Gross margin	57.8 %	59.8 %			59.8 %	59.6 %		
Research and development	\$ 206.9	\$ 213.2	\$ (6.3)	(3.0)%	\$ 213.2	\$ 203.0	\$ 10.2	5.0 %
Percentage of net revenue	18.7 %	16.5 %			16.5 %	16.9 %		
Selling, general and administrative	\$ 328.7	\$ 365.7	\$ (37.0)	(10.1)%	\$ 365.7	\$ 337.5	\$ 28.2	8.4 %
Percentage of net revenue	29.7 %	28.3 %			28.3 %	28.2 %		
Amortization of intangibles	\$ 8.7	\$ 9.7	\$ (1.0)	(10.3)%	\$ 9.7	\$ 33.3	\$ (23.6)	(70.9)%
Percentage of net revenue	0.8 %	0.7 %			0.7 %	2.8 %		
Restructuring and related charges (benefits)	\$ 12.1	\$ (0.1)	\$ 12.2	NM	\$ (0.1)	\$ (1.6)	\$ 1.5	(93.8)%
Percentage of net revenue	1.2 %	— %			— %	(0.1)%		
Loss on convertible note settlement	\$ —	\$ (101.8)	\$ 101.8	NM	\$ (101.8)	\$ —	\$ (101.8)	NM
Percentage of net revenue	— %	(7.9)%			(7.9)%	— %		
Loss on convertible note modification	\$ (2.2)	\$ —	\$ (2.2)	NM	\$ —	\$ —	\$ —	— %
Percentage of net revenue	(0.2)%	— %			— %	— %		
Interest and other income, net	\$ 7.6	\$ 5.2	\$ 2.4	46.2 %	\$ 5.2	\$ 3.3	\$ 1.9	57.6 %
Percentage of net revenue	0.7 %	0.4 %			0.4 %	0.3 %		
Interest expense	\$ (27.1)	\$ (23.3)	\$ (3.8)	16.3 %	\$ (23.3)	\$ (14.7)	\$ (8.6)	58.5 %
Percentage of net revenue	(2.5)%	(1.8)%			(1.8)%	(1.2)%		
Provision for income taxes	\$ 35.2	\$ 49.6	\$ (14.4)	(29.0)%	\$ 49.6	\$ 63.3	\$ (13.7)	(21.6)%
Percentage of net revenue	3.2 %	3.8 %			3.8 %	5.3 %		

Foreign Currency Impact on Results of Operations

While the majority of our net revenue and operating expenses are denominated in U.S. dollar, a portion of our international operations are denominated in currencies other than the U.S. dollar. Changes in foreign exchange rates may significantly affect revenue and expenses. While we use foreign currency hedging contracts to mitigate some foreign currency exchange risk, these activities are limited in the protection that they provide us and can themselves result in losses. We have presented below “constant dollar” comparisons of our net sales and operating expenses which exclude the impact of currency exchange rate fluctuations. Constant dollar net revenue and operating expenses are non-GAAP financial measures, which is information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. GAAP. Our management believes these non-GAAP measures, when considered in conjunction with the corresponding U.S. GAAP measures, may facilitate a better understanding of changes in net revenue and operating expenses.

Fiscal 2023 and 2022

If currency exchange rates had been constant in fiscal 2023 and 2022, our consolidated net revenue in “constant dollars” would have increased by approximately \$23.0 million, or 2.1% of net revenue, which primarily impacted our NE and SE segments. The impact of foreign currency fluctuations on net revenue was not indicative of the impact on net income due to the offsetting foreign currency impact on operating costs and expenses. If currency exchange rates had been constant in fiscal 2023 and 2022, our consolidated operating expenses in “constant dollars” would have increased by approximately \$17.5 million, or 1.6% of net revenue.

The Results of Operations are presented in accordance with U.S. GAAP and not using constant dollars. Refer to Item 7A “Qualitative and Quantitative Disclosures about Market Risk” of this Annual Report on Form 10-K for further details on foreign currency instruments and our related risk management strategies.

Net Revenue

Revenue from our service offerings exceeds 10% of our total consolidated net revenue and is presented separately in our Consolidated Statements of Operations. Service revenue primarily consists of maintenance and support, extended warranty, professional services and post-contract support in addition to other services such as calibration and repair services. When evaluating the performance of our segments, management focuses on total net revenue, gross profit and operating income and not the product or service categories. Consequently, the following discussion of business segment performance focuses on total net revenue, gross profit, and operating income consistent with our approach for managing the business.

Fiscal 2023 and 2022

Net revenue decreased \$186.3 million, or 14.4%, during fiscal 2023 when compared to fiscal 2022. This decrease was primarily driven by lower volumes in NE and OSP, partially offset by an increase in SE.

Product revenues decreased \$199.4 million, or 17.6%, during fiscal 2023 when compared to fiscal 2022, driven by volume decline in all segments.

Service revenues increased \$13.1 million, or 8.3%, during fiscal 2023 when compared to fiscal 2022. This increase was primarily due to increased support revenue from our NSE segment, offset by a declines in our OSP segment.

Going forward, we expect to continue to encounter a number of industry and market risks and uncertainties. For example, uncertainty around the timing of our customers procurement decisions on infrastructure maintenance and upgrades and decisions on new infrastructure investments or uncertainty about speed of adoption of 5G technology at a commercially viable scale. This may limit our visibility, and consequently, our ability to predict future revenue, seasonality, profitability, and general financial performance, which could create period-over-period variability in our financial measures and present foreign exchange rate risks.

We cannot predict when or to what extent these uncertainties will be resolved. Our revenues, profitability, and general financial performance may also be affected by: (a) pricing pressures due to, among other things, a highly concentrated customer base, increasing competition, particularly from Asia-based competitors, and a general commoditization trend for certain products; (b) product mix variability in our NE and SE markets, which affects revenue and gross margin; (c) fluctuations in customer buying patterns, which cause demand, revenue and profitability volatility; (d) the current trend of communication industry consolidation, which is expected to continue, that directly affects our NE and SE customer bases and adds additional risk and uncertainty to our financial and business projections; (e) chip component shortages, supply chain and shipping logistic constraints; (f) the impact of ongoing global trade policies, tariffs and sanctions; and (g) regulatory or economic developments and/or technology challenges that slow or change the rate of adoption of 5G, 3D Sensing and other emerging secular technologies and platforms.

Revenue by Region

We operate in three geographic regions, including the Americas, Asia-Pacific and Europe Middle East and Africa (EMEA). Net revenue is assigned to the geographic region and country where our product is initially shipped. For example, certain customers may request shipment of our product to a contract manufacturer in one country, which may differ from the location of their end customers. The following table presents net revenue by the three geographic regions we operate in and net revenue from countries that exceeded 10% of our total net revenue (*in millions*):

	Years Ended					
	July 1, 2023		July 2, 2022		July 3, 2021	
Americas:						
United States	\$ 362.9	32.8 %	\$ 388.9	30.1 %	\$ 330.0	27.5 %
Other Americas	75.2	6.8 %	96.8	7.5 %	85.6	7.2 %
Total Americas	\$ 438.1	39.6 %	\$ 485.7	37.6 %	\$ 415.6	34.7 %
Asia-Pacific:						
Greater China	\$ 210.9	19.1 %	\$ 256.4	19.8 %	\$ 277.0	23.1 %
Other Asia-Pacific	166.6	15.0 %	205.3	15.9 %	133.5	11.1 %
Total Asia-Pacific	\$ 377.5	34.1 %	\$ 461.7	35.7 %	\$ 410.5	34.2 %
EMEA:	\$ 290.5	26.3 %	\$ 345.0	26.7 %	\$ 372.8	31.1 %
Total net revenue	\$ 1,106.1	100.0 %	\$ 1,292.4	100.0 %	\$ 1,198.9	100.0 %

Net revenue from customers outside the Americas for fiscal 2023, represented 60.4% of net revenue, a decrease of 2.0% year-over-year. This decrease is due to larger declines in revenues from Asia-Pacific and EMEA compared to the decline in the Americas. We expect revenue from customers outside of the United States to continue to be an important part of our overall net revenue and an increasing focus for net revenue growth opportunities.

Amortization of Acquired Technologies (Cost of revenues)

Amortization of acquired technologies within Cost of revenues for fiscal 2023 decreased \$5.4 million, or 18.0%, to \$24.6 million from \$30.0 million in fiscal 2022. This decrease is primarily due to intangible assets becoming fully amortized in fiscal 2022 offset by amortization of intangibles acquired through current year acquisitions.

Gross Margin

Gross margin in fiscal 2023 declined 2.0% to 57.8% from 59.8% in fiscal 2022. This decrease was primarily driven by lower volume and product mix.

As discussed in more detail under “Net Revenue” above, we sell products in certain markets that are consolidating, undergoing product, architectural and business model transitions, have high customer concentrations, are highly competitive (increasingly due to Asia-Pacific-based competition), are price sensitive and/or are affected by customer seasonal and mix variant buying patterns. We expect these factors to continue to result in variability of our gross margin.

Research and Development

R&D expense decreased \$6.3 million, or 3.0%, during fiscal 2023 compared to fiscal 2022. This decrease was primarily driven by variable expense reductions. As a percentage of net revenue, R&D increased 2.2% during fiscal 2023 when compared to fiscal 2022.

We believe that continuing our investments in R&D is critical to attaining our strategic objectives. We plan to continue to invest in R&D and new products that will further differentiate us in the marketplace.

Selling, General and Administrative

SG&A expense decreased \$37.0 million, or 10.1%, in fiscal 2023 compared to fiscal 2022. This decrease was driven by the reversal of the U.K. pension accrued liability, fair value adjustment of contingent consideration related to acquisitions, lower commission expense, variable pay and outside service expenses. As a percentage of net revenue, SG&A increased 1.5% in fiscal 2023 when compared to 2022.

We intend to continue to focus on reducing our SG&A expense as a percentage of net revenue. However, we have in the recent past experienced, and may continue to experience in the future, certain charges unrelated to our core operating performance, such as acquisitions and integration related expenses and litigation expenses, which could increase our SG&A expenses and potentially impact our profitability expectations in any particular quarter.

Amortization of Intangibles (Operating expenses)

Amortization of intangibles within Operating expenses for fiscal 2023 decreased \$1.0 million, or 10.3%, to \$8.7 million from \$9.7 million in fiscal 2022. This decrease is primarily due to intangible assets becoming fully amortized in fiscal 2022 offset by amortization of intangibles acquired through current year acquisitions.

Acquired In-Process Research and Development

In accordance with authoritative guidance, we recognize acquired in-process research and development (IPR&D) at fair value as of the acquisition date, and subsequently account for it as an indefinite-lived intangible asset until completion or abandonment of the associated R&D efforts. We periodically review the stage of completion and likelihood of success of each IPR&D project. The nature of the efforts required to develop IPR&D projects into commercially viable products principally relates to the completion of all planning, designing, prototyping, verification and testing activities that are necessary to establish that the products can be produced to meet their design specifications, including functions, features and technical performance requirements.

Restructuring and Related Charges

The Company restructuring events are primarily intended to reduce costs, consolidate operations, integrate various acquisitions, streamline product manufacturing and address market conditions. During the second quarter of fiscal 2023, Management approved a restructuring and workforce reduction plan (the Fiscal 2023 Plan) to better align the Company's workforce with current business needs and strategic growth opportunities. The Company expects approximately 5% of its global workforce to be affected. We estimate annualized gross cost savings of approximately \$28.0 million excluding any one-time charges as a result of the restructuring activities initiated under the Plan. Refer to "Note 13. Restructuring and Related Charges" for more information.

As of July 1, 2023, our total restructuring accrual was \$5.8 million. During fiscal 2023, we recorded charges and other adjustments of \$12.1 million related to the Fiscal 2023 Plan. Restructuring charges consisting of severance, benefit and outplacement costs were recorded to the Restructuring and related charges (benefits) line within our Consolidated Statements of Operations. These charges are primarily the result of the following:

- i.* The first phase of the Fiscal 2023 Plan impacted all segments and corporate functions. The Company anticipates this phase of the Fiscal 2023 Plan to be substantially complete by the end of the first quarter of fiscal 2024.
- ii.* The second phase of the Fiscal 2023 Plan is primarily focused on reducing costs in our SE segment. The Company anticipates this phase of the Fiscal 2023 Plan to be substantially complete by the end of the second quarter of fiscal 2024.

We estimate future cash payments of \$6.0 million under the Fiscal 2023 Plan during fiscal 2024, funded by operating cash flow. Future charges under the Fiscal 2023 Plan are not expected to be material.

During fiscal 2022 and 2021, the Company recorded a benefit related to other restructuring actions of \$0.1 million and \$1.6 million, respectively.

Loss on Convertible Note Modification

During fiscal 2023, the Company exchanged \$127.5 million principal value of its 1.00% Senior Convertible Notes due 2024 for \$132.0 million principal value of its 1.625% Senior Convertible Notes due 2026 and issued \$118.0 million principal value of its 1.625% Senior Convertible Notes due 2026 for cash. The Company incurred \$4.2 million of issuance costs related to the transaction, of which \$2.2 million of the issuance costs were recorded as Loss on convertible note modification in the Consolidated Statements of Operations. The remaining issuance costs of \$2.0 million was capitalized within Long-term debt (as a contra-balance) on the Consolidated Balance Sheets and will be amortized as an adjustment to interest expense on a straight-line basis until maturity.

Loss on Convertible Note Settlement

During fiscal 2022, the Company entered into separate privately-negotiated agreements with certain holders of its 1.75% Senior Convertible Notes due 2023 and 1.00% Senior Convertible Notes due 2024. The Company paid an aggregate of 10.6 million shares of its common stock, par value \$0.001 per share, and \$347.3 million in cash in exchange for \$156.9 million principal amount of the 2023 Notes and \$236.1 million principal amount of the 2024 Notes. The Company recorded a loss of \$101.8 million in connection with the settlement transactions.

Interest and Other Income, Net

Interest and other income, net was \$7.6 million in fiscal 2023 as compared to \$5.2 million in fiscal 2022. This \$2.4 million increase was primarily driven by higher interest income offset by an unfavorable foreign exchange impact as the balance sheet hedging program provided a less favorable offset to the remeasurement of underlying foreign exchange exposures during the current period.

Interest Expense

Interest expense increased \$3.8 million, or 16.3%, during fiscal 2023 compared to fiscal 2022. This increase was primarily driven by full year interest expense on the Senior Notes due 2029 in the current period as a result of the issuance in September 2021 and the accretion of debt discount on the Senior Convertible Notes due 2026 as a result of the issuance in March 2023 offset by lower interest expense on our convertible notes as a result of convertible notes settlement transactions during fiscal 2022.

Provision for Income Tax

We recorded an income tax provision of \$35.2 million for fiscal 2023. The expected tax provision derived by applying the federal statutory rate to our income before income taxes for fiscal 2023 differed from the income tax expense recorded primarily due to valuation allowances in addition to withholding taxes, foreign tax rates higher than the federal statutory rate and the U.S. inclusion of foreign earnings.

Based on a jurisdiction-by-jurisdiction review of anticipated future income and due to the continued economic uncertainty in the industry, management has determined that in the U.S., it is more likely than not that our net deferred tax assets will not be realized. During fiscal 2023, the valuation allowance for deferred tax assets increased by \$30.7 million which was primarily due to the increase in capitalization of federal research expenditures in the U.S.

The decrease in income tax provision of \$14.4 million or 29.0% during fiscal 2023 was due primarily to a reduction in foreign earnings in the current year as compared to the fiscal 2022 foreign earnings and a charge of \$13.2 million related to internal intellectual properties restructuring.

We are routinely subject to various federal, state and foreign audits by taxing authorities. We believe that adequate amounts have been provided for any adjustments that may result from these examinations.

Operating Segment Information *(in millions)*:

	2023	2022	Change	Percentage Change	2022	2021	Change	Percentage Change
NE								
Net revenue	\$697.5	\$845.8	\$ (148.3)	(17.5)%	\$845.8	\$746.6	\$ 99.2	13.3 %
Gross profit	440.1	543.6	(103.5)	(19.0)%	543.6	474.2	69.4	14.6 %
Gross margin	63.1 %	64.3 %			64.3 %	63.5 %		
SE								
Net revenue	\$103.7	\$103.3	\$ 0.4	0.4 %	\$103.3	\$ 91.3	\$ 12.0	13.1 %
Gross profit	70.1	71.5	(1.4)	(2.0)%	71.5	59.9	11.6	19.4 %
Gross margin	67.6 %	69.2 %			69.2 %	65.6 %		
NSE								
Net revenue	\$801.2	\$949.1	\$ (147.9)	(15.6)%	\$949.1	\$837.9	\$ 111.2	13.3 %
Operating income	61.2	147.8	(86.6)	(58.6)%	147.8	92.2	55.6	60.3 %
Operating margin	7.6 %	15.6 %			15.6 %	11.0 %		
OSP								
Net revenue	\$304.9	\$343.3	\$ (38.4)	(11.2)%	\$343.3	\$361.0	\$ (17.7)	(4.9)%
Gross profit	158.6	193.6	(35.0)	(18.1)%	193.6	218.1	(24.5)	(11.2)%
Gross margin	52.0 %	56.4 %			56.4 %	60.4 %		
Operating income	111.3	139.0	(27.7)	(19.9)%	139.0	161.3	(22.3)	(13.8)%
Operating margin	36.5 %	40.5 %			40.5 %	44.7 %		

Network Enablement

NE net revenue decreased \$148.3 million, or 17.5% during fiscal 2023 when compared to fiscal 2022. This decrease was primarily driven by lower volumes in Field Instruments, Lab & Production and Wireless products compared to the prior year partially offset by PNT revenue not included in the same period a year ago.

NE gross margin decreased by 1.2% during fiscal 2023 to 63.1% from 64.3% in fiscal 2022. This decrease was primarily due to lower volumes.

Service Enablement

SE net revenue increased \$0.4 million, or 0.4%, during fiscal 2023 when compared to fiscal 2022, primarily due to higher Growth Assurance revenue.

SE gross margin decreased by 1.6% during fiscal 2023 to 67.6% from 69.2% in fiscal 2022. This decrease was primarily due to lower volumes.

Network and Service Enablement

NSE operating margin decreased by 8.0% during fiscal 2023 to 7.6% from 15.6% in fiscal 2022. The decrease in operating margin was primarily driven by lower volumes.

Optical Security and Performance Products

OSP net revenue decreased \$38.4 million, or 11.2%, during fiscal 2023 when compared to fiscal 2022. This decrease was primarily driven by lower Anti-Counterfeiting and consumer and industrial revenues.

OSP gross margin decreased by 4.4% during fiscal 2023 to 52.0% from 56.4% in fiscal 2022. This decrease was primarily due to unfavorable manufacturing variances associated with lower volumes and startup costs in our new Arizona facility.

OSP operating margin decreased by 4.0% during fiscal 2023 to 36.5% from 40.5% in fiscal 2022. The decrease in operating margin was primarily due to the aforementioned reduction in gross margin.

Liquidity and Capital Resources

We believe our existing liquidity and sources of liquidity, namely operating cash flows, credit facility capacity, and access to capital markets, will continue to be adequate to meet our liquidity needs, including but not limited to, contractual obligations, working capital and capital expenditure requirements, financing strategic initiatives, funding debt maturities, and execution of purchases under our share repurchase program over the next twelve months and beyond. However, there are a number of factors that could positively or negatively impact our liquidity position, including:

- Global economic conditions which affect demand for our products and services and impact the financial stability of our suppliers and customers;
- Changes in accounts receivable, inventory or other operating assets and liabilities which affect our working capital;
- Increase in capital expenditure to support the revenue growth opportunity of our business;
- Changes in customer payment terms and patterns, which typically results in customers delaying payments or negotiating favorable payment terms to manage their own liquidity positions;
- Timing of payments to our suppliers;
- Factoring or sale of accounts receivable;
- Volatility in fixed income and credit markets which impact the liquidity and valuation of our investment portfolios;
- Volatility in credit markets which would impact our ability to obtain additional financing on favorable terms or at all;
- Volatility in foreign exchange markets which impacts our financial results;

- Possible investments or acquisitions of complementary businesses, products or technologies;
- While the principal payment obligations of our 1.00% Senior Convertible Notes due 2024, our 1.625% Senior Convertible Notes due 2026, and our 3.75% Senior Notes due 2029 (together the “Notes”) are substantial and there are covenants that restrict our debt level and credit facility capacity, we may be able to incur substantially more debt;
- Issuance or repurchase of debt which may include open market purchases of our 2024 Notes, 2026 Notes and/or 2029 Notes prior to their maturity;
- Issuance or repurchase of our common stock or other equity securities;
- Potential funding of pension liabilities either voluntarily or as required by law or regulation;
- Compliance with covenants and other terms and conditions related to our financing arrangements; and
- The risks and uncertainties detailed in Item 1A “Risk Factors” section of our Annual Report on Form 10-K.

Cash and Cash Equivalents and Short-Term Investments

Our cash and cash equivalents and short-term investments consist mainly of investments in institutional money market funds and short-term deposits at major global financial institutions. Our strategy is focused on the preservation of capital and supporting our liquidity requirements that meet high credit quality standards, as specified in our investment policy approved by the Audit Committee of our Board of Directors. Our investments in debt securities and marketable equity securities are primarily classified as available for sale or trading assets and are recorded at fair value. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on available-for-sale investments are recorded as Other comprehensive (loss) income and are reported as a separate component of stockholders’ equity. As of July 1, 2023, U.S. subsidiaries owned approximately 34.7% of our cash and cash equivalents, short-term investments and restricted cash.

As of July 1, 2023, the majority of our cash investments have maturities of 90 days or less and are of high credit quality. Nonetheless we could realize investment losses under adverse market conditions. During the twelve months ended July 1, 2023, we have not realized material investment losses but can provide no assurance that the value or the liquidity of our investments will not be impacted by adverse conditions in the financial markets. In addition, we maintain cash balances in operating accounts that are with third-party financial institutions. These balances in the U.S. may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. While we monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail.

Senior Secured Asset-Based Revolving Credit Facility

On December 30, 2021, we entered into a credit agreement (the Credit Agreement) with Wells Fargo Bank, National Association (Wells Fargo) as administrative agent, and other lender related parties. The Credit Agreement provides for a senior secured asset-based revolving credit facility in a maximum aggregate amount of \$300.0 million, which matures on December 30, 2026. The Credit Agreement also provides that, under certain circumstances, we may increase the aggregate amount of revolving commitments thereunder by an aggregate amount of up to \$100.0 million so long as certain conditions are met.

As of July 1, 2023, we had no borrowings under this facility and our available borrowing capacity was approximately \$172.5 million, net of outstanding standby letters of credit of \$4.1 million.

Refer to “Note 11. Debt” under Item 8 of this Annual Report on Form 10-K for more information.

Revolving Credit Facility

On May 5, 2020, we entered into a credit agreement with Wells Fargo as administrative agent, and other lender related parties. We borrowed \$150.0 million and repaid \$150.0 million under this credit agreement during the first quarter of fiscal 2022. In connection with the entry into the senior secured asset-based revolving credit facility noted above, we terminated this facility.

Refer to “Note 11. Debt” under Item 8 of this Annual Report on Form 10-K for more information.

Cash Flows Year Ended July 1, 2023

As of July 1, 2023, our combined balance of cash and cash equivalents and restricted cash decreased by \$57.2 million to \$515.6 million from a balance of \$572.8 million as of July 2, 2022.

Cash provided by operating activities was \$114.1 million, consisted of net income of \$25.5 million adjusted for non-cash charges (e.g., depreciation, amortization, stock-based compensation, amortization of debt issuance cost, loss on convertible note modification and accretion and net change in fair value of contingent liabilities), including changes in deferred tax balances which totaled \$138.3 million, offset by changes in operating assets and liabilities that used \$49.7 million. Changes in our operating assets and liabilities related primarily to a decrease in accrued expenses and other current and non-current liabilities of \$47.4 million due primarily to timing in payments of tax withholding and interest coupled with lower manufacturing accruals, a decrease in accrued payroll and related expenses of \$25.8 million due primarily to lower commissions and variable pay, an increase in inventories of \$10.7 million to meet demand, a decrease in accounts payable of \$9.4 million driven by timing of purchases and related payments, a decrease in deferred revenue of \$2.1 million due to timing of support billings and project acceptance and a decrease in income taxes payable of \$2.0 million. These were partially offset by a decrease in accounts receivable of \$37.4 million due to collections outpacing billings and a decrease in other current and non-current assets of \$10.3 million.

Cash used in investing activities was \$127.1 million, primarily related to \$67.3 million used for acquisitions, \$51.1 million used for capital expenditures, \$13.1 million used for purchases of short-term investments and \$0.7 million purchase price adjustment related to business acquisition. These were partially offset by \$5.1 million proceeds from sales of assets.

Cash used in financing activities was \$50.0 million, primarily resulting from \$83.9 million cash paid to repurchase common stock under our share repurchase program, \$68.1 million to retire 2023 Senior Convertible Notes upon maturity, \$11.8 million in withholding tax payments on the vesting of restricted stock awards, \$7.8 million payment of acquisition related contingent consideration and obligations and \$4.3 million in other payments, primarily payments of debt issuance costs. These were partially offset by \$118.0 million proceeds from the issuance of 2026 Senior Convertible Notes and \$7.9 million in proceeds from the issuance of common stock under our employee stock purchase plan.

Material Contractual and Material Cash Obligations

The following summarizes our contractual obligations at July 1, 2023, and the effect such obligations are expected to have on our liquidity and cash flow over the next five years (*in millions*):

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Asset retirement obligations—expected cash payments	\$ 4.3	\$ 1.0	\$ 0.9	\$ 0.9	\$ 1.5
Debt:					
2029 3.75% Senior Notes ⁽¹⁾	400.0	—	—	—	400.0
2026 1.625% Senior Convertible Notes ⁽¹⁾	250.0	—	250.0	—	—
2024 1.00% Senior Convertible Notes ⁽¹⁾	96.4	96.4	—	—	—
Estimated interest payments	111.8	20.5	38.4	30.4	22.5
Purchase obligations ⁽²⁾	124.0	41.7	79.0	2.3	1.0
Operating lease obligations ⁽³⁾	46.2	10.3	16.6	9.6	9.7
Non-cancelable leaseback obligations ⁽²⁾	26.0	3.0	6.2	5.9	10.9
Royalty payment	1.5	0.8	0.7	—	—
Pension and post-retirement benefit payments ⁽⁴⁾	58.8	9.2	12.4	11.8	25.4
Total	\$1,119.0	\$ 182.9	\$ 404.2	\$ 60.9	\$ 471.0

(1) Refer to “Note 11. Debt” for more information.

(2) Refer to “Note 18. Commitments and Contingencies” for more information.

(3) Refer to “Note 12. Leases” for more information.

(4) Refer to “Note 17. Employee Pension and Other Benefit Plans” for more information.

Purchase obligations represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Of the \$124.0 million of purchase obligations as of July 1, 2023, \$42.1 million are related to inventory and the other \$81.9 million are non-inventory items.

As of July 1, 2023, our other non-current liabilities primarily relate to asset retirement obligations, pension and financing obligations which are presented in various lines in the preceding table.

Share Repurchase Program

During fiscal 2023 we repurchased 7.3 million shares of our common stock outstanding for \$83.9 million pursuant to our 2019 and 2022 Share Repurchase Plans. As of July 1, 2023, the Company had remaining authorization of \$234.8 million for future share repurchases under the 2022 Repurchase Plan.

Refer to “Note 15. Stockholders Equity” under Item 8 of this Annual Report on Form 10-K for more information.

Employee Defined Benefit Plans and Other Post-retirement Benefits

We sponsor significant qualified and non-qualified pension plans for certain past and present employees in the U.K. and Germany. Most of these plans have been closed to new participants and no additional service costs are being accrued.

As of July 1, 2023, the U.K. plan is fully funded. During fiscal 2023, we (amounts represented as £ and \$ denote GBP and USD, respectively) contributed £1.0 million or approximately \$1.2 million, while in fiscal 2022, we contributed £1.0 million or approximately \$1.3 million to the U.K. pension plan. These contributions allowed us to comply with regulatory funding requirements.

As of July 1, 2023, our German pension plans, which were initially established as unfunded or “pay-as-you-go” plans, were underfunded by \$55.0 million since the Pension Benefit Obligation (PBO) exceeded the fair value of plan assets. We anticipate future annual outlays related to the German plans will approximate estimated future benefit payments. These future benefit payments have been estimated based on the same actuarial assumptions used to measure our projected benefit obligation and currently are forecasted to range between \$4.2 million and \$7.9 million per annum.

We also are responsible for the non-pension post-retirement benefit obligation assumed from a past acquisition with a liability of \$0.4 million.

Recently Issued Accounting Pronouncements

Refer to “Note 2. Recently Issued Accounting Pronouncements” under Item 8 of this Annual Report on Form 10-K, regarding the effect of certain recent accounting pronouncements on our Consolidated Financial Statements.

Critical Accounting Estimates

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. Our estimates are based on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. We believe that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates and such differences may be material. Refer to “Note 1. Basis of Presentation” under Item 8 of this Annual Report on Form 10-K, for a discussion of the estimates used in preparation our Consolidated Financial Statements.

For our Pension accounting, significant judgment is required in actuarial assumption used when establishing the discount rate for the net periodic cost and the projected benefit obligation (PBO) calculations. Changes in the discount rate impact the interest cost component of the net periodic benefit cost calculation and PBO due to the fact that the PBO is calculated on a net present value basis. Decreases in the discount rate will generally increase pre-tax cost, recognized expense and the PBO. Increases in the discount rate tend to have the opposite effect. We estimate a 50-basis point decrease or increase in the discount rate would cause a corresponding increase or decrease, respectively, in the PBO of approximately \$4.0 million based upon data as of July 1, 2023.

Goodwill is recognized and initially measured as the excess of the purchase price paid over the net fair value of assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is tested for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not result in an impairment of goodwill. The Company tests goodwill at the reporting unit level for impairment during the fourth quarter of each fiscal year, or more frequently if events or circumstances indicate that the asset may be impaired.

First, we assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we conduct a quantitative goodwill impairment test comparing the fair value of the applicable reporting unit with its carrying value. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. However, if the fair value of the reporting unit is less than book value, then goodwill will be impaired by the amount that the carrying amount of goodwill exceeds the fair value.

As part of the annual impairment test, the Company performed a quantitative assessment of goodwill impairment for all reporting units.

The Company estimated the fair value of each reporting unit by applying a combination of the income approach and the market approach. The income approach used discounted future cash flows in which sales, operating income and cash flow projections were based on assumptions driven by current economic conditions. In developing these assumptions, we relied on various factors including operating results, business plans, economic projections, anticipated future cash flows, and other market data. The market approach was based on trading multiples of companies comparable to each reporting unit and analysis of recent sales of comparable entities. We corroborated the fair value estimates by comparing the sum of the fair values of the reporting units and corporate net assets to VIAVI's market capitalization as of the valuation date.

The Company believes the assumptions used in the goodwill impairment test were reasonable, but future changes in the underlying assumptions could occur due to the inherent uncertainty in making such estimates. Further declines in the Company's operating results due to challenging economic conditions, an unfavorable industry or macroeconomic development or other adverse changes in market conditions could change one of the key assumptions the Company used in the goodwill impairment assessment, which could result in a further decline in fair value and require the Company to record an impairment charge in future periods.

Based on our testing, the fair value of each of the Company's reporting units was at least two times the carrying value, and therefore no impairment was identified.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

We use foreign exchange forward contracts to hedge foreign currency risk associated with foreign currency denominated monetary assets and liabilities, primarily certain short-term intercompany receivables and payables. Our foreign exchange forward contracts are accounted for as derivatives whereby the fair value of the contracts are reflected as other current assets or other current liabilities and the associated gains and losses are reflected in Interest and other income, net in the Consolidated Statements of Operations. Our hedging programs reduce, but do not eliminate, the impact of currency exchange rate movements. The gains and losses on those derivatives are expected to be offset by re-measurement gains and losses on the foreign currency denominated monetary assets and liabilities.

As of July 1, 2023, we had forward contracts that were effectively closed but not settled with the counterparties by year end. The fair value of these contracts of \$3.5 million and \$2.4 million is reflected as Prepayments and other current assets and Other current liabilities on the Consolidated Balance Sheets as of July 1, 2023, respectively.

The forward contracts outstanding and not effectively closed, with a term of less than 120 days, were transacted near year end and had minimal value as of July 1, 2023 and a fair value of \$0.1 million which is reflected in Other current liabilities on the Consolidated Balance Sheets as of July 2, 2022. As of July 1, 2023 and July 2, 2022, the notional amounts of the forward contracts that we held to purchase foreign currencies were \$87.5 million and \$119.1 million, respectively, and the notional amounts of forward contracts that we held to sell foreign currencies were \$19.3 million and \$80.5 million, respectively.

The counterparties to these hedging transactions are creditworthy multinational banks. The risk of counterparty nonperformance associated with these contracts is not considered to be material. Notwithstanding our efforts to mitigate some foreign exchange risks, we do not hedge all of our foreign currency exposures, and there can be no assurances that our mitigating activities related to the exposures that we do hedge will adequately protect us against the risks associated with foreign currency fluctuations.

Investments

Majority of our investments have maturities 90 days or less. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investments as a result of changes in interest rates. Changes in interest rates can affect the interest earned on our investments.

We seek to mitigate the credit risk of investments by holding high-quality, investment-grade debt instruments. We also seek to mitigate marketability risk by holding only highly liquid securities with active secondary or resale markets. However, the investments may decline in value or marketability due to changes in perceived credit quality or changes in market conditions.

As of July 1, 2023, the Company's short-term investments of \$14.6 million were comprised of a 30-day term deposit of \$13.1 million and trading securities related to the deferred compensation plan of \$1.5 million, of which \$0.1 million was invested in debt securities, \$1.2 million was invested in equity securities and \$0.2 million was invested in money market instruments.

Debt

The fair value of our 2029 Notes is subject to interest rate risk while the fair values of our 2024 and 2026 Notes are subject to interest rate and market price risk due to the convertible feature of the Notes and other factors. Generally, the fair value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair value of the 2024 and 2026 Notes may also increase as the market price of our stock rises and decrease as the market price of our stock falls. Changes in interest rates and our stock price in the case of convertible notes affect the fair value of the Notes but does not impact our financial position, cash flows or results of operations.

Based on quoted market prices, as of July 1, 2023, the fair value of the 2024 Notes was \$95.6 million, the fair value of the 2026 Notes was \$262.7 million and the fair value of the 2029 Notes was \$341.8 million. The carrying value of the 2024 Notes was \$96.2 million, the carrying value of the 2026 Notes was \$235.0 million and the carrying value of the 2029 Notes was \$394.5 million. Refer to "Note 11. Debt" under Item 8 of this Annual Report on Form 10-K for more information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Viavi Solutions Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Viavi Solutions Inc. and its subsidiaries (the "Company") as of July 1, 2023 and July 2, 2022, and the related consolidated statements of operations, of comprehensive income (loss), of stockholders' equity and of cash flows, for each of the three years in the period ended July 1, 2023, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of July 1, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of July 1, 2023 and July 2, 2022, and the results of its operations and its cash flows for each of the three years in the period ended July 1, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 1, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for convertible debt instruments as of July 3, 2021.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

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

Revenue Recognition – Identifying and Evaluating Performance Obligations in Certain Customer Contracts in the Network Enablement and Service Enablement Reportable Segments

As described in Notes 1 and 19 to the consolidated financial statements, the Company had \$1,106.1 million of revenue for the year ended July 1, 2023 of which \$697.5 million and \$103.7 million related to the Network Enablement and Service Enablement segments, respectively. The Company's revenue recognition is determined by management through the following steps: 1) identification of the contract with a customer; 2) identification of the performance obligations in the contract; 3) determination of the transaction price; 4) allocation of the transaction price to the performance obligations in the contract; and 5) recognition of revenue when (or as) the performance obligations are satisfied. Certain of the Company's contracts with customers include performance obligations consisting of a variety of products and services and may involve a significant level of integration and interdependency between performance obligations. Identifying and evaluating whether products and services are considered distinct performance obligations may require significant management judgment, particularly in the Network Enablement and Service Enablement reportable segments due to the nature of the product and service offerings.

The principal considerations for our determination that performing procedures relating to revenue recognition – identifying and evaluating performance obligations in certain customer contracts in the Network Enablement and Service Enablement reportable segments is a critical audit matter are the significant judgment by management in identifying and evaluating performance obligations, which in turn led to a high degree of auditor judgment and effort in performing procedures and evaluating audit evidence obtained related to whether such performance obligations were appropriately identified and evaluated by management.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls related to the identification and evaluation of performance obligations in contracts with customers. These procedures also included, among others, testing on a sample basis, the completeness and accuracy of management's identification and evaluation of performance obligations in certain customer contracts in the Network Enablement and Service Enablement reportable segments.

/s/ PricewaterhouseCoopers LLP

Phoenix, Arizona
August 17, 2023

We have served as the Company's auditor since 2005.

VIAVI SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Revenues:			
Product revenue	\$ 936.1	\$ 1,135.5	\$ 1,051.4
Service revenue	170.0	156.9	147.5
Total net revenue	1,106.1	1,292.4	1,198.9
Cost of revenues:			
Product cost of revenue	364.9	421.3	391.7
Service cost of revenue	77.8	67.6	59.6
Amortization of acquired technologies	24.6	30.0	33.2
Total cost of revenues	467.3	518.9	484.5
Gross profit	638.8	773.5	714.4
Operating expenses:			
Research and development	206.9	213.2	203.0
Selling, general and administrative	328.7	365.7	337.5
Amortization of other intangibles	8.7	9.7	33.3
Restructuring and related charges (benefits)	12.1	(0.1)	(1.6)
Total operating expenses	556.4	588.5	572.2
Income from operations	82.4	185.0	142.2
Loss on convertible note settlement (Note 11)	—	(101.8)	—
Loss on convertible note modification (Note 11)	(2.2)	—	—
Interest and other income, net	7.6	5.2	3.3
Interest expense	(27.1)	(23.3)	(14.7)
Income before income taxes	60.7	65.1	130.8
Provision for income taxes	35.2	49.6	63.3
Net income	<u>\$ 25.5</u>	<u>\$ 15.5</u>	<u>\$ 67.5</u>
Net income per share:			
Basic	\$ 0.11	\$ 0.07	\$ 0.30
Diluted	\$ 0.11	\$ 0.07	\$ 0.29
Shares used in per-share calculations:			
Basic	224.6	230.9	228.7
Diluted	226.6	238.2	236.3

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

VIAMI SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Net income	\$ 25.5	\$ 15.5	\$ 67.5
Other comprehensive income (loss):			
Net change in cumulative translation adjustment, net of tax	18.8	(76.1)	61.5
Net change in available-for-sale investments, net of tax:			
Unrealized holding (losses) gains arising during period	(0.3)	0.1	—
Net change in defined benefit obligation, net of tax:			
Unrealized actuarial gains arising during period	2.0	13.9	4.1
Amortization of actuarial (gains) losses	(0.1)	2.9	3.1
Net change in accumulated other comprehensive income (loss)	20.4	(59.2)	68.7
Comprehensive income (loss)	<u>\$ 45.9</u>	<u>\$ (43.7)</u>	<u>\$ 136.2</u>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

VIAVI SOLUTIONS INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except share and par value data)

	July 1, 2023	July 2, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 506.5	\$ 559.9
Short-term investments	14.6	1.4
Restricted cash	4.5	3.6
Accounts receivable, net	231.2	260.9
Inventories, net	116.1	110.1
Prepayments and other current assets	72.1	69.2
Total current assets	945.0	1,005.1
Property, plant and equipment, net	243.0	228.9
Goodwill, net	455.2	387.6
Intangibles, net	58.6	54.2
Deferred income taxes	87.0	86.3
Other non-current assets	61.7	65.8
Total assets	<u>\$ 1,850.5</u>	<u>\$ 1,827.9</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 47.2	\$ 58.3
Accrued payroll and related expenses	50.5	76.0
Deferred revenue	78.6	81.0
Accrued expenses	21.2	29.3
Short-term debt	96.2	68.4
Other current liabilities	49.8	56.3
Total current liabilities	343.5	369.3
Long-term debt	629.5	616.5
Other non-current liabilities	186.7	170.4
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 1 million shares authorized, no shares issued or outstanding at July 1, 2023 and July 2, 2022.	—	—
Common stock, \$0.001 par value; 1 billion shares authorized; 222 million shares at July 1, 2023 and 226 million shares at July 2, 2022, issued and outstanding	0.2	0.2
Additional paid-in capital	70,427.3	70,370.2
Accumulated deficit	(69,600.7)	(69,542.3)
Accumulated other comprehensive loss	(136.0)	(156.4)
Total stockholders' equity	690.8	671.7
Total liabilities and stockholders' equity	<u>\$ 1,850.5</u>	<u>\$ 1,827.9</u>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

VIAMI SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
OPERATING ACTIVITIES:			
Net income	\$ 25.5	\$ 15.5	\$ 67.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	36.2	35.7	35.8
Amortization of acquired technologies and other intangibles	33.3	39.7	66.5
Stock-based compensation	51.2	52.3	48.3
Amortization of debt issuance costs and accretion of debt discount	4.2	2.8	2.3
Net change in fair value of contingent liabilities	(4.6)	—	(5.3)
Loss on disposal of long-lived assets	0.9	2.3	0.1
Loss on convertible note debt modification and settlement	2.2	101.8	—
Deferred taxes, net	4.8	(10.5)	0.6
Restructuring	12.1	—	—
Gain on legal settlement	(6.7)	—	—
Other	4.7	2.0	2.8
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	37.4	(18.3)	(15.0)
Inventories	(10.7)	(27.7)	(14.3)
Other current and non-currents assets	10.3	(11.3)	14.9
Accounts payable	(9.4)	(5.6)	7.0
Income taxes payable	(2.0)	(18.2)	18.1
Deferred revenue, current and non-current	(2.1)	13.2	12.3
Accrued payroll and related expenses	(25.8)	3.0	23.1
Accrued expenses and other current and non-current liabilities	(47.4)	1.4	(21.4)
Net cash provided by operating activities	<u>114.1</u>	<u>178.1</u>	<u>243.3</u>
INVESTING ACTIVITIES:			
Purchases of short-term investments	(13.1)	—	—
Acquisition of businesses, net of cash acquired	(67.3)	(8.3)	(0.7)
Purchase price adjustment related to business acquisition	(0.7)	—	—
Capital expenditures	(51.1)	(72.5)	(52.1)
Proceeds from the sale of assets	5.1	9.8	4.1
Net cash used in investing activities	<u>(127.1)</u>	<u>(71.0)</u>	<u>(48.7)</u>
FINANCING ACTIVITIES:			
Proceeds from issuance of senior notes	118.0	400.0	—
Payment of debt issuance costs	(4.2)	(10.5)	(0.1)
Repurchase and retirement of common stock	(83.9)	(235.9)	(42.2)
Payment of financing obligations	(0.1)	(0.1)	(1.2)
Retirement of convertible notes upon maturity	(68.1)	—	—
Cash paid in convertible note settlement	—	(351.6)	—
Proceeds from exercise of employee stock options and employee stock purchase plan	7.9	7.8	6.6
Withholding tax payment on vesting of restricted stock awards	(11.8)	(14.1)	(17.9)
Proceeds from revolving credit facility	—	150.0	—
Repayment of revolving credit facility	—	(150.0)	—
Payment of acquisition related contingent consideration and obligations	(7.8)	(6.0)	(4.0)
Net cash used in financing activities	<u>(50.0)</u>	<u>(210.4)</u>	<u>(58.8)</u>
Effect of exchange rates on cash, cash equivalents and restricted cash	5.8	(32.3)	25.2
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>(57.2)</u>	<u>(135.6)</u>	<u>161.0</u>
Cash, cash equivalents and restricted cash at beginning of period ⁽¹⁾	572.8	708.4	547.4
Cash, cash equivalents and restricted cash at end of period ⁽²⁾	<u>\$ 515.6</u>	<u>\$ 572.8</u>	<u>\$ 708.4</u>
Supplemental disclosure of cash flow information			
Cash paid for interest	\$ 22.0	\$ 17.9	\$ 12.3
Cash paid for income taxes, net of refunds	\$ 47.5	\$ 77.1	\$ 36.7

(1) These amounts include both current and non-current balances of restricted cash totaling \$12.9 million, \$10.6 million and \$8.4 million as of July 2, 2022, July 3, 2021, and June 27, 2020, respectively.

(2) These amounts include both current and non-current balances of restricted cash totaling \$9.1 million, \$12.9 million and \$10.6 million as of July 1, 2023, July 2, 2022 and July 3, 2021, respectively.

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

VIAMI SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at June 27, 2020	228.3	\$ 0.2	\$ 70,146.1	\$ (69,347.2)	\$ (165.9)	\$ 633.2
Net income	—	—	—	67.5	—	67.5
Other comprehensive income	—	—	—	—	68.7	68.7
Shares issued under employee stock plans, net of tax effects	3.0	—	(11.5)	—	—	(11.5)
Stock-based compensation	—	—	48.6	—	—	48.6
Repurchase of common stock	(3.0)	—	—	(42.6)	—	(42.6)
Balance at July 3, 2021	228.3	\$ 0.2	\$ 70,183.2	\$ (69,322.3)	\$ (97.2)	\$ 763.9
Net income	—	—	—	15.5	—	15.5
Other comprehensive loss	—	—	—	—	(59.2)	(59.2)
Shares issued under employee stock plans, net of tax effects	2.3	—	(6.1)	—	—	(6.1)
Stock-based compensation	—	—	52.0	—	—	52.0
Repurchase of common stock	(14.8)	—	—	(235.5)	—	(235.5)
Convertible note settlement (Note 11)	10.6	—	141.1	—	—	141.1
Balance at July 2, 2022	226.4	\$ 0.2	\$ 70,370.2	\$ (69,542.3)	\$ (156.4)	\$ 671.7
Net income	—	—	—	25.5	—	25.5
Other comprehensive income	—	—	—	—	20.4	20.4
Shares issued under employee stock plans, net of tax effects	2.4	—	(3.9)	—	—	(3.9)
Stock-based compensation	—	—	51.2	—	—	51.2
Repurchase of common stock	(7.3)	—	(0.3)	(83.9)	—	(84.2)
Convertible note modification (Note 11)	—	—	10.1	—	—	10.1
Balance at July 1, 2023	221.5	\$ 0.2	\$ 70,427.3	\$ (69,600.7)	\$ (136.0)	\$ 690.8

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

Description of Business

Viavi Solutions, Inc. (VIAVI, also referred to as the Company, we, our and us), is a global provider of network test, monitoring and assurance solutions to communications service providers (CSPs), enterprises, network equipment manufacturers (NEMs), original equipment manufacturers (OEMs), government and avionics. VIAVI is also a leader in light management solutions for the anti-counterfeiting, consumer electronics, industrial, government and automotive markets.

Fiscal Years

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to June 30th. The Company's 2023 and 2022 fiscal years were 52-week years ending on July 1, 2023 and July 2, 2022, respectively. The Company's 2021 fiscal year was a 53-week fiscal year ending on July 3, 2021 as the first quarter of fiscal year 2021 was a 14-week quarter compared to the standard 13-week quarters.

Principles of Consolidation

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

Use of Estimates

The preparation of the Company's Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that effect the reported amount of assets and liabilities at the date of the financial statements, the reported amount of net revenues and expenses and the disclosure of commitments and contingencies during the reporting periods. Estimates are based on historical factors, current circumstances and the experience and judgment of management. Under changed conditions the Company's reported financial positions or results of operations may be materially impacted when using different estimates and assumptions, particularly with respect to significant accounting policies. If estimates or assumptions differ from actual results, subsequent periods are adjusted to reflect more readily available information.

Cash and Cash Equivalents

The Company considers highly liquid instruments such as treasury bills, commercial paper and other money market instruments with original maturities of 90 days or less at the time of purchase to be cash equivalents.

Restricted Cash

At July 1, 2023 and July 2, 2022, the Company's short-term restricted cash balances were \$4.5 million and \$3.6 million, respectively. The Company's long-term restricted cash balances, included in Other non-current assets on the Consolidated Balance Sheets, were \$4.6 million and \$9.3 million as of July 1, 2023 and July 2, 2022, respectively. These balances primarily include interest-bearing investments in bank deposit and money market funds which act as collateral supporting the issuance of standby letters of credit and performance bonds for the benefit of third parties. Refer to "Note 18. Commitments and Contingencies" for more information.

Investments

The Company's investments in debt securities are classified as available for sale investments, recorded at fair value. The cost of securities sold is based on the specific identified method. Unrealized gains and losses resulting from changes in fair value on available-for-sale investments, net of tax, are reported as a component of Accumulated other comprehensive loss on the Consolidated Balance Sheets.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company periodically reviews investments in debt securities for impairment. If a debt security's fair value is below amortized cost and the Company either intends to sell the security or it is more likely than not that the Company will be required to sell the security before its anticipated recovery, the Company records an other-than-temporary impairment charge to current earnings for the entire amount of the impairment. If a debt security's fair value is below amortized cost and the Company does not expect to recover the entire amortized cost of the security, the Company separates the other-than-temporary impairment into: (i) the portion of the loss related to credit factors, or the credit loss portion; and, (ii) the portion of the loss that is not related to credit factors, or the non-credit loss portion. The credit loss portion is recorded as an allowance to credit loss through Interest and other income, net, in the Consolidated Statement of Operations and the non-credit loss portion is recorded as a component of Accumulated other comprehensive loss on the Consolidated Balance Sheets.

The Company's investments also include fixed term deposits with interest earned recorded as a component of Interest and other income, net, in the Consolidated Statement of Operations.

Fair Value of Financial Instruments

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. There is an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. Observable inputs are inputs which market participants would use in valuing an asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs which reflect the assumptions market participants would use in valuing an asset or liability.

The three levels of inputs that may be used to measure fair value are:

- Level 1: includes financial instruments for which quoted market prices for identical instruments are available in active markets. Level 1 assets of the Company include money market funds, U.S. Treasury securities and marketable equity securities as they are traded with sufficient volume and frequency of transactions.
- Level 2: includes financial instruments for which the valuations are based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities. Level 2 instruments of the Company include asset-backed securities, foreign currency forward contracts and debt. To estimate their fair value, the Company utilizes pricing models based on market data. The significant inputs for the valuation model usually include benchmark yields, reported trades, broker and dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data, and industry and economic events.
- Level 3: includes financial instruments for which fair value is derived from valuation-based inputs, that are unobservable and significant to the overall fair value measurement. As of July 1, 2023 and July 2, 2022, the Company did not hold any Level 3 investment securities. The Company's Level 3 liabilities as of July 1, 2023 and July 2, 2022 consist of contingent purchase consideration liabilities related to business acquisitions. The fair value of such earn-out liabilities are generally determined using a Monte Carlo Simulation that includes significant unobservable inputs such as the risk-adjusted discount rate, gross profit volatility, and projected financial forecast of acquired business over the earn-out period. The fair value of certain earn-out liabilities is derived using the estimated probability of success of achieving the earn-out milestones discounted to present value. The fair value of contingent consideration liabilities is remeasured at each reporting period at the estimated fair value based on the inputs on the date of remeasurement, with the change in fair value recognized in the Selling, general and administrative (SG&A) expense of the Consolidated Statements of Operations.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories

The Company's inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of net realizable value. On a quarterly basis, the Company assesses the value of its inventory and writes down those inventories determined to be obsolete or in excess of its forecasted usage to their market value. The Company's estimates of realizable value are based upon management analysis and assumptions including, but not limited to, forecasted sales levels by product, expected product life cycle, product development plans and future demand requirements. The Company's product line management personnel play a key role in its excess review process by providing updated sales forecasts, managing product transitions and working with manufacturing to minimize excess inventory. Differences between actual market conditions and customer demand to the Company's forecasts, may create favorable or unfavorable inventory positions, and may result in additional inventory write-downs or higher than expected income from operations. The Company's inventory amounts include material, labor, and manufacturing overhead costs.

Leases

The Company determines if an arrangement is a lease or contains a lease at inception. Operating lease liabilities are recognized based on the present value of the remaining lease payments, discounted using the discount rate for the lease at the commencement date. If the rate implicit in the lease is not readily determinable for our operating leases, the Company uses an incremental borrowing rate based on information available at the commencement date to determine the present value of future lease payments. The lease term is the non-cancelable period of the lease and includes options to extend or terminate the lease when it is reasonably certain that an option will be exercised. Operating right-of-use (ROU) assets are recognized at commencement based on the amount of the initial measurement of the lease liability. Operating ROU assets also include any lease payments made prior to lease commencement and exclude lease incentives. Lease expense is recognized on a straight-line basis over the lease term.

Operating ROU assets are included in Other non-current assets and lease liabilities are included in Other current liabilities and Other non-current liabilities on the Consolidated Balance Sheets. Lease and non-lease components for all leases are accounted for separately. The Company does not recognize ROU assets and lease liabilities for leases with a lease term of twelve months or less.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using a straight-line method, over the estimated useful lives of the assets: building and improvements 5 to 50 years; machinery and equipment 3 to 30 years; and furniture, fixtures, software and office equipment 2 to 10 years.

Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the asset or the remaining lease term.

Demonstration units are amortized using the straight-line method and are Company products used for demonstration purposes for existing and prospective customers. These assets are generally not intended to be sold and have an estimated useful life of 3 to 5 years.

Costs related to software acquired, developed or modified solely to meet the Company's internal requirements and for which there are no substantive plans to market are capitalized in accordance with the authoritative guidance on accounting for the costs of computer software developed or obtained for internal use. Only costs incurred after the preliminary planning stage of the project and after management has authorized and committed funds to the project are eligible for capitalization. Costs capitalized for computer software developed or obtained for internal use are included in Property, plant and equipment, net, on the Consolidated Balance Sheets.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Business Combinations

The Company includes the results of operations of the businesses that it acquires from the acquisition date. In allocating the purchase price of a business combination, the Company records all assets acquired and liabilities assumed at fair value as of the date of acquisition, with the excess of the purchase price over the aggregate fair values recorded as goodwill. Additionally, any contingent consideration is recorded at fair value on the acquisition date and classified as a liability.

The Company determines the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. The fair value assigned to identifiable intangible assets acquired is based on estimates and assumptions made by management at the time of the acquisition. The Company adjusts the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as it obtains more information as to facts and circumstances existing as of the acquisition date.

Acquisition-related costs are recognized separately from the business combination and are expensed as incurred.

Goodwill

Goodwill represents the excess of the purchase price paid over the net fair value of assets acquired and liabilities assumed. The Company tests goodwill for impairment at the reporting unit level at least annually, during the fourth quarter of each fiscal year, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

The accounting guidance provides the Company with the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The qualitative assessment considers events and circumstances that might indicate that a reporting unit's fair value is less than its carry amount. These events and circumstances include, macro-economic conditions, such as a significant adverse change in the Company's operating environment, industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel, or other events, such as the sale of a reporting unit, adverse regulatory developments or a sustained decrease in the Company's stock price.

If it is determined, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative test is required. Otherwise, no further testing is required.

Under the quantitative test, the Company compares the fair value of a reporting unit to its carrying value. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. However, if the fair value of the reporting unit is less than book value, then goodwill will be impaired by the amount that the carrying amount exceeds the fair value, not to exceed the carrying amount of the goodwill.

To estimate the fair value of each reporting unit, a combination of the income and market approach is used. The income approach uses discounted future cash flows in which sales, operating income and cash flow projections are based on assumptions driven by current economic conditions. Key assumptions used in the discounted future cash flow model include, but are not limited to, long-term annual growth rates, terminal growth rates, weighted average cost of capital and the Company's effective tax rate.

The market approach utilizes the Guideline Public Company Method and Guideline Transaction Method to derive fair value. The Guideline Public Company Method determines the fair value of an entity based upon trading multiples calculated using market value of minority interests in publicly-traded companies that are similar to the subject company. The Guideline Transaction Method calculates the fair value of an entity by analyzing recent sales of comparable entities.

Refer to "Note 9. Goodwill" for more information.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible Assets

In connection with the Company's acquisitions, the Company generally recognizes assets for customer relationships, acquired developed technologies, patents, proprietary know-how, trade secrets, in-process research and development (IPR&D) and trademarks and trade names. Finite lived intangible assets are amortized using the straight-line method over the estimated economic useful lives of the assets, which is the period during which expected cash flows support the fair value of such intangible assets. Refer to "Note 10. Acquired Developed Technology and Other Intangibles" for more information.

Long-lived Assets

Long-lived assets, including intangible assets and property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any asset or asset group may not be recoverable. Such an evaluation is performed at the lowest identifiable level of cash flows independent of other assets. An impairment loss would be recognized when estimated undiscounted future cash flows generated from the assets are less than their carrying amount. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset or asset group over its estimated fair value. Estimates of future cash flow require significant judgment based on anticipated future operating results, which are subject to variability and change.

Pension and Other Post-retirement Benefits

The funded status of the Company's retirement-related benefit plans is recognized on the Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at fiscal year end, the measurement date. For defined benefit pension plans, the benefit obligation is the projected benefit obligation (PBO) and for the non-pension post-retirement benefit plan the benefit obligation is the accumulated post-retirement benefit obligation (APBO). The PBO represents the actuarial present value of benefits expected to be paid upon its employees' retirement. The APBO represents the actuarial present value of post-retirement benefits attributed to employee services already rendered. Unfunded or partially funded plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as a retirement and non-pension post-retirement benefit obligation equal to this excess. The current portion of the retirement-related benefit obligation represents the actuarial present value of benefits payable in the next 12 months in excess of the fair value of plan assets, measured on a plan-by-plan basis. This liability is recorded in Other current liabilities on the Consolidated Balance Sheets.

Net periodic pension cost is recorded in the Consolidated Statements of Operations and includes service cost, interest cost, expected return on plan assets, amortization of prior service cost or credit, and gains or losses previously recognized as a component of Accumulated other comprehensive loss on the Consolidated Balance Sheets. Service cost represents the actuarial present value of participant benefits attributed to services rendered by employees in the current year. Interest cost represents the time value of money cost associated with the passage of time. Gains or losses arise as a result of differences between actual experience and assumptions or as a result of changes in actuarial assumptions. Prior service cost or credit represents the cost of benefit improvements attributable to prior service granted in plan amendments. Gains or losses and prior service cost or credit not recognized as a component of net periodic pension cost in the Consolidated Statements of Operations are recognized as a component of Accumulated other comprehensive loss on the Consolidated Balance Sheets, net of tax. Those gains or losses and prior service cost or credit are subsequently recognized as a component of net periodic pension cost pursuant to the recognition and amortization provisions of the authoritative guidance.

The measurement of the benefit obligation and net periodic pension cost is based on the Company's estimates and actuarial valuations provided by third-party actuaries and are approved by management. These valuations reflect the terms of the plans and use participant-specific information such as compensation, age and years of service, as well as certain assumptions, including estimates of discount rates, expected return on plan assets, rate of compensation increases and mortality rates. The Company evaluates these assumptions periodically but not less than annually. In estimating the expected return on plan assets, the Company considers historical returns on plan assets, diversification of plan investments, adjusted for forward-looking considerations, inflation assumptions and the impact of the active management of the plan's invested assets.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company measures its benefit obligation and plan assets using the month-end date of June 30, which is closest to the Company's fiscal year-end.

Concentration of Credit and Other Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, restricted cash, trade receivables and foreign currency forward contracts. The Company's cash and cash equivalents and short-term investments are held in safekeeping by large, creditworthy financial institutions. The Company invests its excess cash primarily in institutional money market funds, short-term deposits and similar short duration high quality, investment grade instruments.

The Company has established guidelines relative to credit ratings, diversification and maturities that seek to maintain the safety and liquidity of these investments. The Company's foreign exchange derivative instruments expose the Company to credit risk to the extent that the counterparties may be unable to meet the terms of the agreements. The Company seeks to mitigate such risk by limiting its counterparties to major financial institutions and by spreading such risk across several major financial institutions. Potential risk of loss with any one counterparty resulting from such risk is monitored by the Company on an ongoing basis.

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. When the Company becomes aware that a specific customer is unable to meet its financial obligations, the Company records a specific allowance to reflect the level of credit risk in the customer's outstanding receivable balance. In addition, the Company records additional allowances based on certain percentages of aged receivable balances. These percentages consider a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. The Company classifies bad debt expenses as SG&A expense in the Consolidated Statements of Operations.

The Company is not able to predict changes in the financial stability of its customers. Any material changes in the financial status of any one customer or a group of customers could have a material adverse effect on the Company's results of operations and financial condition. Although such losses have been within management's expectations to date, there can be no assurance that such allowances will continue to be adequate. The Company has significant trade receivables concentrated in the telecommunications industry. While the Company's allowance for doubtful accounts balance is based on historical loss experience along with anticipated economic trends, unanticipated financial instability in the telecommunications industry could lead to higher than anticipated losses.

As of July 1, 2023, there were no customer balances that represented 10% or more of the Company's total accounts receivable, net. As of July 2, 2022, one customer represented 10% or more of the Company's total accounts receivable, net.

During fiscal 2023, 2022 and 2021, one customer generated 10% or more of total net revenues. Refer to "Note 19. Operating Segments and Geographic Information" for more information.

The Company relies on a limited number of suppliers and contract manufacturers for a number of key components and sub-assemblies contained in the Company's products.

The Company generally uses a rolling twelve-month forecast based on anticipated product orders, customer forecasts, product order history and backlog to determine its materials requirements for any one period. Lead times for the parts and components that the Company orders may vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at any given time. If the forecast does not meet actual demand, the Company may have surplus or dearth of some materials and components, as well as excess inventory purchase commitments. The Company could experience reduced or delayed product shipments or incur additional inventory write-downs and cancellation charges or penalties, which may result in increased costs and have a material adverse impact on the Company's results of operations.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Currency Forward Contracts

The Company conducts its business and sells its products to customers primarily in North America, Europe, Asia and South America. In the normal course of business, the Company's financial position is routinely subject to market risks associated with foreign currency rate fluctuations due to balance sheet positions in foreign currencies. The Company evaluates foreign exchange risks and utilizes foreign currency forward contracts to reduce such risks, hedging the gains or losses generated by the re-measurement of significant foreign currency-denominated monetary assets and liabilities. The fair value of these contracts is reflected as other current assets or liabilities and the change in fair value of these foreign currency forward contracts is recorded as gain or loss in the Consolidated Statements of Operations as a component of Interest and other income, net. The gain or loss from the change in fair value of these foreign currency forward contracts largely offsets the change in fair value of the foreign currency denominated monetary assets or liabilities, which is also recorded as a component of Interest and other income, net in the Consolidated Statements of Operations.

Foreign Currency Translation

VIAMI transacts business in various foreign currencies. In general, the functional currency of our non-US subsidiaries is the country's local currency. Consequently, the assets and liabilities of non-U.S. subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date, with the resulting translation adjustments directly recorded as a component of Accumulated other comprehensive loss on the Consolidated Balance Sheets. Income and expense accounts are translated at exchange rates from the prior month end, which are deemed to approximate the exchange rate when the income and expense is recognized. Gains and losses from re-measurement of monetary assets and liabilities that are denominated in currencies other than the respective functional currencies are included in the Consolidated Statements of Operations as a component of Interest and other income, net.

Revenue Recognition

The Company derives revenue from a diverse portfolio of network solutions and optical technology products and services, as follows:

- *Products:* Network Enablement (NE) and Service Enablement (SE) products include instruments, microprobes and perpetual software licenses that support the development, production, maintenance and optimization of network systems. NE and SE are collectively referred to as Network and Service Enablement (NSE). The Company's Optical Security and Performance (OSP) products include proprietary pigments used for optical security and optical filters used in commercial, government and 3D Sensing applications.
- *Services:* The Company also offers a range of product support and professional services, primarily in the NE and SE segments, designed to comprehensively address customer requirements. These include repair, calibration, extended warranty, software support, technical assistance, training and consulting services. Implementation services provided in conjunction with hardware or software solution projects include sale of the products along with project management, set-up and installation.

Steps of revenue recognition

The Company accounts for revenue in accordance with ASC 606: *Revenue from Contracts with Customers*, in which the following five steps are applied to recognize revenue:

1. *Identify the contract with a customer:* Generally, the Company considers customer purchase orders which, in some cases are governed by master sales or other purchase agreements, to be the customer contract. All of the following criteria must be met before the Company considers an agreement to qualify as a contract with a customer under the revenue standard: (i) it must be approved by all parties; (ii) each party's rights regarding the goods and services to be transferred can be identified; (iii) the payment terms for the goods and services can be identified; (iv) the customer has the ability and intent to pay and collection of substantially all of the consideration is probable; and, (v) the agreement has commercial substance. The Company utilizes judgment to determine the customer's ability and intent to pay, which is based upon various factors including the customer's historical payment experience or credit and financial information and credit risk management measures implemented by the Company.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. *Identify the performance obligations in the contract:* The Company assesses whether each promised good or service is distinct for the purpose of identifying the various performance obligations in each contract. Promised goods and services are considered distinct provided that: (i) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and, (ii) the Company's promise to transfer the good or service to the customer is separately identifiable or distinct from other promises in the contract. The Company's performance obligations consist of a variety of products and services offerings which include networking equipment; proprietary pigment, optical filters, proprietary software licenses; support and maintenance which includes hardware support that extends beyond the Company's standard warranties, software maintenance, installation, professional and implementation services, and training.

Identifying and evaluating whether products and services are considered distinct performance obligations may require significant judgment particularly in NSE due to the nature of the product and service offerings. The Company may enter into contracts that involve a significant level of integration and interdependency between a software license and installation services. Judgment may be required to determine whether the software license is considered distinct in the context of the contract and accounted for separately, or not distinct in the context of the contract and accounted for together with the installation service.

3. *Determine the transaction price:* Transaction price reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to the customer. The Company's contracts may include terms that could cause variability in the transaction price including rebates, sales returns, market incentives and volume discounts. Variable consideration is generally accounted for at the portfolio level and estimated based on historical information. If a contract includes a variable amount, the price adjustments are estimated at contract inception. In both cases, estimates are updated at the end of each reporting period as additional information becomes available.
4. *Allocate the transaction price to performance obligations in the contract:* If the contract contains a single performance obligation, the entire transaction price is allocated to that performance obligation. Many of the Company's contracts include multiple performance obligations with a combination of distinct products and services, maintenance and support, professional services and/or training. Contracts may also include rights or options to acquire future products and/or services, which are accounted for as separate performance obligations by the Company, only if the right or option provides the customer with a material right that it would not receive without entering into the contract. For contracts with multiple performance obligations, the Company allocates the total transaction value to each distinct performance obligation based on relative standalone selling price (SSP). Judgment is required to determine the SSP for each distinct performance obligation. The best evidence of SSP is the observable price of a good or service when the Company sells that good or service separately under similar circumstances to similar customers. If a directly observable price is not available, the SSP must be estimated based on multiple factors including, but not limited to, historical pricing practices, internal costs, and profit objectives as well as overall market conditions.
5. *Recognize revenue when (or as) performance obligations are satisfied:* Revenue is recognized at the point in time control is transferred to the customer. For hardware sales, transfer of control to the customer typically occurs at the point the product is shipped or delivered to the customer's designated location. For software license sales transfer of control to the customer typically occurs upon shipment, electronic delivery, or when the software is available for download by the customer. For sales of implementation service and solution contracts or in instances where software is sold along with essential installation services, transfer of control occurs and revenue is typically recognized upon customer acceptance. In certain instances, acceptance is deemed to have occurred if all acceptance provisions lapse, or if the Company has evidence that all acceptance provisions will be, or have been, satisfied. For fixed-price support and extended warranty contracts, or certain software arrangements which provide customers with a right to access over a discrete period, control is deemed to transfer over time and revenue is recognized on a straight-line basis over the contract term due to the stand-ready nature of the performance obligation. Revenue from hardware repairs and calibration services outside of an extended warranty or support contract is recognized at the time of completion of the related service. For other professional services or time-based labor contracts, revenue is recognized as the Company performs the services and the customers receive and/or consume the benefits.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue policy and practical expedients

The following policy and practical expedient elections have been made by the Company under the revenue standard:

- Revenue-based taxes as assessed by governmental authorities have been excluded from the measurement of transaction price.
- Shipping and handling activities performed after the customer obtains control of the good are treated as activities to fulfill the promise (cost of fulfillment). Therefore, the Company does not evaluate whether the shipping and handling activities are promised services.
- Incremental costs of obtaining contracts that would have been recognized within one year or less are recognized as an expense when incurred. These costs are included in SG&A expense in the Consolidated Statements of Operations. The costs of obtaining contracts where the amortization period for recognition of the expense is beyond a year are capitalized and recognized over the revenue recognition period of the original contract.
- The portfolio approach is used for certain types of variable consideration for contracts with similar characteristics. The methodology is used when the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts within that portfolio.
- If at contract inception, the expected period between the transfer of promised goods or services and payment is within one year or less, the Company forgoes adjustment for the impact of significant financing component for the contract.

Disaggregation of Revenue

The Company's revenue is presented on a disaggregated basis in the Consolidated Statements of Operations and in "Note 19. Operating Segments and Geographic Information". This information includes revenue from reportable segments and a break-out of products and services for which the nature and timing of the revenue as characterized above is generally at a point in time and over time, respectively.

Warranty

The Company provides reserves for the estimated costs of product warranties at the time revenue is recognized. Warranty cost estimates are based on historical experience of known product failure rates, use of materials to repair or replace defective products, and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise.

Shipping and Handling Costs

The Company records costs related to shipping and handling of revenue in cost of sales for all periods presented.

Advertising Expense

The Company expenses advertising costs as incurred. Advertising costs totaled \$2.6 million, \$3.2 million and \$2.7 million in fiscal 2023, 2022 and 2021, respectively.

Research and Development Expense

Costs related to Research and Development (R&D) primarily consists of labor and benefits, supplies, facilities, consulting and outside service fees. The authoritative guidance allows for capitalization of software development costs incurred after a product's technological feasibility has been established until the product is available for general release to the public. The Company believes its software development process is completed concurrent with the establishment of technological feasibility. As such, software development costs have been expensed as incurred.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Government Assistance

From time to time the Company will receive government assistance in the form of grants and tax credits in certain jurisdictions, generally recorded as a reduction of R&D expense in the Consolidated Statements of Operations. The Company recorded approximately \$4.0 million in the form of R&D credits during fiscal 2023. As of July 1, 2023, the Company had pending receipts of approximately \$14.5 million related to government assistance primarily in the U.K. included in Prepayments and other current assets on the Consolidated Balance Sheets.

Stock-Based Compensation

The Company's stock-based compensation includes a combination of time-based restricted stock awards and performance-based awards, stock options, and an Employee Stock Purchase Plan (ESPP).

Restricted stock awards are granted without an exercise price and are converted to shares immediately upon vesting. When converted into shares upon vesting, shares equivalent in value to the minimum withholding taxes liability on the vested shares are withheld by the Company for the payment of such taxes. Time-based restricted stock awards will generally vest in annual installments over a period of three to four years subject to the employees' continuing service to the Company.

The Company's performance-based awards may include performance conditions, market conditions, time-based service conditions or a combination thereof and are generally expected to vest over one to four years. The actual number of shares awarded upon vesting of performance-based grants may vary from the target shares depending upon the achievement of the relevant performance or market-based conditions. The shares attained over target upon vesting for performance-based awards are reflected as awards granted during the period.

The Company estimates the fair value of ESPP and stock options purchase rights using the Black-Scholes Merton (BSM) option-pricing model. This option-pricing model requires the input of assumptions, including the award's expected life and the price volatility of the underlying stock.

The Company does not apply expected forfeiture rate and accounts for forfeitures as they occur. The total fair value of the equity awards is recorded on a straight-line basis, over the requisite service period of the awards for each separate vesting period of the award, except for certain performance-based awards which are amortized based upon the graded vesting method.

Income Taxes

In accordance with the authoritative guidance on accounting for income taxes, the Company recognizes income taxes using an asset and liability approach. This approach requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for future tax consequences of events that have been recognized in the Company's Consolidated Financial Statements or tax returns. The measurement of current and deferred taxes is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated.

The authoritative guidance provides for recognition of deferred tax assets if the realization of such deferred tax assets is more likely than not to occur based on an evaluation of both positive and negative evidence and the relative weight of the evidence. With the exception of certain international jurisdictions, the Company has determined that at this time it is more likely than not that deferred tax assets attributable to the remaining jurisdictions will not be realized, primarily due to uncertainties related to its ability to utilize its net operating loss carryforwards before they expire. Accordingly, the Company has established a valuation allowance for such deferred tax assets. If there is a change in the Company's ability to realize its deferred tax assets for which a valuation allowance has been established, then its tax provision may decrease in the period in which it determines that realization is more likely than not. Likewise, if the Company determines that it is not more likely than not that its deferred tax assets will be realized, then a valuation allowance may be established for such deferred tax assets and the Company's tax provision may increase in the period in which the Company makes the determination.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The authoritative guidance on accounting for uncertainty in income taxes prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, it provides guidance on recognition, classification, and disclosure of tax positions. The Company is subject to income tax audits by the respective tax authorities in the jurisdictions in which it operates. The determination of tax liabilities in each of these jurisdictions requires the interpretation and application of complex and sometimes uncertain tax laws and regulations. The Company recognizes liabilities based on its estimate of whether, and the extent to which, additional tax liabilities are more likely than not. If the Company ultimately determines that the payment of such a liability is not necessary, then it reverses the liability and recognizes a tax benefit during the period it is determined no longer necessary.

The recognition and measurement of current taxes payable or refundable and deferred tax assets and liabilities requires that the Company make certain estimates and judgments. Changes to these estimates or a change in judgment may have a material impact on the Company's tax provision in a future period.

Restructuring Accrual

In accordance with authoritative guidance on accounting for costs associated with exit or disposal activities, generally costs associated with restructuring activities are recognized when they are incurred. A liability for post-employment benefits for workforce reductions related to restructuring activities is recorded when payment is probable, and the amount is reasonably estimable. The Company continually evaluates the adequacy of the remaining liabilities under its restructuring initiatives. Although the Company believes that these estimates accurately reflect the costs of its restructuring plans, actual results may differ, thereby requiring the Company to record additional liabilities or reverse a portion of existing liabilities.

Contingencies

The Company is subject to various potential loss contingencies arising in the ordinary course of business. In determining a loss contingency, the Company considers the likelihood of loss or impairment of an asset or the inurrence of a liability, as well as its ability to reasonably estimate the amount of loss. An estimated loss is accrued when it is probable that an asset has been impaired, a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to determine whether such accruals should be adjusted and whether new accruals are required.

Contingent liabilities include contingent consideration in connection with the Company's acquisitions, which represent earn-out payments and is recognized at fair value on the acquisition date and is remeasured each reporting period with subsequent adjustments recognized in the SG&A expense of the Consolidated Statements of Operations. While the Company believes the estimates and assumptions are reasonable, there is significant judgment and uncertainty involved.

Asset Retirement Obligations

Asset Retirement Obligations (ARO) are legal obligations associated with the retirement of long-lived assets pertaining to leasehold improvements. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the asset carrying value and ARO by the same amount. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Company records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Company derecognizes ARO liabilities when the related obligations are settled. As of July 1, 2023, and July 2, 2022, the Consolidated Balance Sheets included ARO balance of \$0.5 million in Other current liabilities and \$3.8 million and \$3.7 million, respectively, in Other non-current liabilities. A summary of the activity in the ARO accrual is outlined below (*in millions*):

	Balance at Beginning of Period	Liabilities Incurred	Liabilities Settled	Accretion Expense	Revisions to Estimates	Balance at End of Period
Year ended July 1, 2023	\$ 4.2	\$ 0.3	\$ (0.3)	\$ 0.1	\$ —	\$ 4.3
Year ended July 2, 2022	\$ 3.7	\$ 0.8	\$ (0.4)	\$ 0.1	\$ —	\$ 4.2

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Recently Issued Accounting Pronouncements

Recent Accounting Pronouncements Adopted

In August 2020, the FASB issued ASU 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for convertible instruments with characteristics of liability and equity. This new guidance removes separation models for certain convertible debt instruments which will now be accounted for as a single liability measured at amortized cost. In addition, the interest expense recognized for these instruments will typically be closer to the coupon interest rate due to the removal of the separation model's non-cash discount amortization.

The Company adopted ASU 2020-06 effective the first quarter of fiscal 2022, on a full retrospective basis. The elimination of the separation model for the convertible debt instruments reclassified the equity components of the Company's Senior Convertible Notes previously in Additional paid-in capital to Long-term debt. Consequently, the temporary equity balance for the Senior Convertible Notes as of July 3, 2021 was eliminated. In addition, interest expense was reduced and net income was increased by \$21.4 million for fiscal 2021. The adoption had no impact on total cash provided by (used in) operating, investing or financing activities in the Consolidated Statements of Cash Flows.

The following table presents the impact of the standard adoption to select line items of the Consolidated Balance Sheet as of July 3, 2021 (*in millions*):

	July 3, 2021		
	As Reported	Adjustment	As Adjusted
LIABILITIES AND STOCKHOLDERS' EQUITY			
Short-term debt	\$ 414.2	\$ 42.4	\$ 456.6
Long-term debt	209.8	14.3	224.1
Mezzanine equity - Senior Convertible Notes	45.8	(45.8)	—
Additional paid-in capital	70,265.5	(82.3)	70,183.2
Accumulated deficit	\$ (69,393.7)	\$ 71.4	\$ (69,322.3)

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the impact of the standard adoption to select line items of the Consolidated Statement of Operations for the year ended July 3, 2021 (*in millions, except per-share data*):

	Year Ended July 3, 2021		
	As Reported	Adjustment	As Adjusted
Interest Expense	\$ (36.1)	\$ 21.4	\$ (14.7)
Net income	\$ 46.1	\$ 21.4	\$ 67.5
Net income per share:			
Basic	\$ 0.20	\$ 0.10	\$ 0.30
Diluted	\$ 0.20	\$ 0.09	\$ 0.29
Shares used in per-share calculation:			
Basic	228.7	—	228.7
Diluted	235.9	0.4	236.3

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. ASU 2021-10 requires annual disclosures about transactions with a government entity that are accounted for by applying a grant or contribution accounting model including the disclosure of the types of assistance, an entity's accounting for the assistance, and the effect of the assistance on an entity's financial statements. ASU 2021-10 is effective for annual periods beginning after December 15, 2021. The Company adopted ASU 2021-10 on July 3, 2022 on a prospective basis. We often receive government assistance in the form of research grants and tax credits in certain jurisdictions, recorded as a reduction of R&D expense in the Consolidated Statements of Operations. The Company recorded approximately \$4.0 million in R&D credits during fiscal 2023. As of July 1, 2023, the Company had pending receipts of approximately \$14.5 million related to government assistance primarily in the U.K. included in Prepayments and other current assets on the Consolidated Balance Sheets.

In March 2022, the FASB issued ASU 2022-01, *Derivatives and Hedging (Topic 815)*, which clarifies guidance on fair value hedge accounting of interest rate risk for portfolios of financial assets. The amendments in this update expand the current last-of-layer method of hedge accounting that permits only one hedged layer to now allow designation of multiple hedged layers with a single closed portfolio. To reflect that expansion, the last-of-layer method is renamed the portfolio layer method. The Company adopted this guidance in the fourth quarter of fiscal 2023, which did not have an impact on the Company's Consolidated Financial Statements. We will assess future impact, if any, in subsequent periods.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326)*, which eliminates the accounting guidance on troubled debt restructurings for creditors in ASC 310 and amends the guidance on vintage disclosures to require disclosure of current-period gross write-offs by year of origination. The ASU also updates the requirements related to the accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancing and restructurings for borrowers experiencing financial difficulty. The Company adopted this guidance in the fourth quarter of fiscal 2023, which did not have an impact on the Company's Consolidated Financial Statements. We will assess future impact, if any, in subsequent periods.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, which clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. This guidance also requires certain disclosures for equity securities subject to contractual sale restrictions. The new guidance is required to be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. The Company adopted this guidance in the fourth quarter of fiscal 2023, which had no impact on the Company's Consolidated Financial Statements. We will assess future impact, if any, in subsequent periods.

In September 2022, the FASB issued ASU 2022-04, *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*, which makes a number of changes meant to add certain disclosure requirements for a buyer in a supplier finance program. The amendments require a buyer that uses supplier finance programs to make annual disclosures about the program's key terms, the balance sheet presentation of related amounts, the confirmed amount outstanding at the end of the period, and associated rollforward information. Only the amount outstanding at the end of the period must be disclosed in interim periods. The Company adopted this guidance in the fourth quarter of fiscal 2023, which did not have an impact on the Company's disclosures in the Annual Report on Form 10-K for the year ended July 1, 2023. We will assess future impact, if any, in subsequent periods.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Earnings Per Share

Basic net income per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. If dilutive, the effect of outstanding Employee Stock Purchase Program (ESPP) purchase rights, restricted stock units (RSUs), performance-based stock units (PSUs), market-based stock units (MSUs), stock options and Senior Convertible Notes is reflected in diluted net income per share by application of the treasury stock method and/or the if-converted method, as applicable. The calculation of diluted net income per share excludes all anti-dilutive common shares.

The following table sets forth the computation of basic and diluted net income per share (*in millions, except per share data*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Numerator:			
Net income	\$ 25.5	\$ 15.5	\$ 67.5
Denominator:			
Weighted-average shares outstanding:			
Basic	224.6	230.9	228.7
Shares issuable assuming conversion of convertible notes ⁽¹⁾	0.3	4.8	5.0
Effect of dilutive securities from stock-based compensation plans	1.7	2.5	2.6
Diluted	226.6	238.2	236.3
Net income per share:			
Basic	\$ 0.11	\$ 0.07	\$ 0.30
Diluted	\$ 0.11	\$ 0.07	\$ 0.29

(1) Represents the dilutive impact for the Company's 1.75% Senior Convertible Notes due 2023 (2023 Notes), the 1.00% Senior Convertible Notes due 2024 (2024 Notes) and the 1.625% Senior Convertible Notes due 2026 (2026 Notes). The par amount of the Company's convertible notes is payable in cash equal to the principal amount of the notes plus any accrued and unpaid interest and the "in-the money" conversion benefit feature above the conversion price is payable in cash, shares of the Company's common stock or a combination of both, at the Company's election. Refer to "Note 11. Debt" for more information.

The following table sets forth the weighted-average potentially dilutive securities excluded from the computation of the diluted net income per share because their effect would have been anti-dilutive (*in millions*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Full Value Awards ⁽¹⁾	3.7	0.6	0.4

(1) See Note 16. Stock-Based Compensation for definition of Full Value Awards.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Accumulated Other Comprehensive Loss

The Company's accumulated other comprehensive loss consists of the accumulated net unrealized gains and losses on available-for-sale investments, foreign currency translation adjustments and change in unrealized components of defined benefit obligations.

Changes in accumulated other comprehensive loss by component, net of tax, were as follows (*in millions*):

	Unrealized (losses) on available-for- sale investments	Foreign currency translation adjustments	Change in unrealized components of defined benefit obligations, net of tax ⁽¹⁾	Total
Beginning balance as of July 2, 2022	\$ (5.0)	\$ (144.2)	\$ (7.2)	\$ (156.4)
Other comprehensive (loss) income before reclassification	(0.3)	18.8	2.0	20.5
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(0.1)	(0.1)
Net current period other comprehensive (loss) income	(0.3)	18.8	1.9	20.4
Ending balance as of July 1, 2023	<u>\$ (5.3)</u>	<u>\$ (125.4)</u>	<u>\$ (5.3)</u>	<u>\$ (136.0)</u>

(1) Activity before reclassifications to the Consolidated Statements of Operations during the fiscal year ended July 1, 2023 relates to the unrealized actuarial gain of \$2.8 million, net of income tax effect of \$0.8 million. The amount reclassified out of accumulated other comprehensive (loss) income represents the amortization of actuarial losses included as a component of SG&A expense in the Consolidated Statement of Operations for the year ended July 1, 2023. Refer to "Note 17. Employee Pension and Other Benefit Plans" for more details on the computation of net periodic cost for pension plans.

Note 5. Acquisitions

On October 5, 2022, the Company acquired all of the equity of Jackson Labs Technologies, LLC (Jackson Labs), a privately held company which specializes in Position, Navigation and Timing (PNT) solutions for critical infrastructure serving both military and civilian applications. The acquisition enables the Company to broaden its solutions offering into the rapidly developing PNT landscape.

The total purchase consideration included approximately \$49.9 million paid in cash at closing and additional contingent consideration of up to \$117.0 million for which future cash payments are dependent on the achievement of certain operational and revenue targets over the course of a three-year period beginning in January 2023. The cash consideration paid at closing included escrow payments of \$5.0 million for indemnity holdback and \$2.0 million subject to final cash and net working capital adjustments. The acquisition met the definition of a business and has been accounted for in accordance with the authoritative guidance on business combinations; therefore, the tangible and intangible assets acquired and liabilities assumed were recorded at fair value on the acquisition date. Acquisition related costs incurred were approximately \$0.8 million and have been recorded within SG&A expense in the Consolidated Statements of Operations. The Company has included the financial results of Jackson Labs in its consolidated financial statements from the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to the Consolidated Statements of Operations.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total purchase consideration was allocated to tangible and intangible assets acquired and liabilities assumed based on the preliminary fair value on the acquisition date. The following table presents the allocation of the purchase price (in millions):

	Amount
Cash and cash equivalents	\$ 1.1
Accounts receivable, net	2.3
Inventory, net	3.2
Goodwill ⁽¹⁾	48.3
Identified intangible assets acquired	30.6
Other non-current assets	0.1
Accounts payable	(0.6)
Accrued expenses	(3.4)
Deferred revenue	(2.1)
Other current liabilities	(0.5)
Total purchase consideration	\$ 79.0

1) Goodwill at acquisition date of \$48.8 million reduced by measurement period adjustment of \$0.5 million.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (*in millions, except useful life*):

	Estimated Useful Life	Amount
Developed technology	6 years	\$ 25.0
Customer relationship	3 years	2.7
Tradename	2 years	0.5
Backlog	1 year	2.4
Total identifiable assets acquired		\$ 30.6

Goodwill represents the excess of the preliminary estimated purchase consideration over the preliminary estimates of the fair value of the net tangible and intangible assets acquired and has been allocated to the Network Enablement segment. Goodwill is primarily attributable to expected synergies in the acquired technologies that may be leveraged by the Company in future PNT offerings. The goodwill is expected to be deductible for U.S. income tax purposes.

Other Acquisitions:

On March 29, 2023, April 21, 2023 and June 8, 2023, the Company completed acquisitions accounted for as asset purchases consisting of cash paid at closing of \$2.9 million and \$0.2 million of indemnity holdback. In connection with these acquisitions, the Company recorded developed technology intangibles of \$2.5 million which will be amortized over their estimated useful life of five years.

On July 18, 2022, the Company completed an acquisition accounted for as a business combination consisting of cash paid at closing of \$17.5 million and \$2.0 million of indemnity holdback. In connection with this acquisition, the Company recorded approximately \$11.2 million of goodwill, \$5.1 million of developed technology and \$1.8 million of deferred tax liability. The acquired developed technology asset is being amortized over its estimated useful life of four years.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On May 13, 2022 and May 20, 2022, the Company completed acquisitions accounted for as business combinations for cash paid at close of \$9.5 million, additional earn-outs of up to \$3.3 million cash to be paid based on the occurrence or achievement of certain agreed upon targets and \$2.0 million of indemnity holdback. In connection with these acquisitions, the Company recorded \$10.0 million of goodwill, \$7.3 million of developed technology and other intangibles and \$1.6 million of deferred tax liability. The acquired developed technology and other intangible assets are being amortized over their estimated useful lives ranging from one to six years.

On September 17, 2021, the Company acquired all of the equity of one business for approximately \$1.6 million. The acquisition was accounted for as an asset purchase. The developed technology will be amortized over its estimated useful life of five years.

Acquisition-related Contingent Consideration

The following table provides a reconciliation of changes in fair value of the Company's earn-out liabilities for the years ended July 1, 2023 and July 2, 2022, as follows (*in millions*):

	Total
Balance July 3, 2021	\$ 4.0
Additions to Contingent Consideration	2.5
Change in Fair Value measurement	0.3
Currency translation adjustment	0.1
Payments of Contingent Consideration	(4.4)
Balance July 2, 2022 ⁽¹⁾	\$ 2.5
Additions to Contingent Consideration	29.4
Change in Fair Value measurement	(4.6)
Payments of Contingent Consideration	(7.6)
Balance July 1, 2023 ⁽²⁾	\$ 19.7

(1) Includes \$1.8 million in Other current liabilities and \$0.7 million in Other non-current liabilities on the Consolidated Balance Sheets.

(2) Includes \$1.1 million in Other current liabilities and \$18.6 million in Other non-current liabilities on the Consolidated Balance Sheets.

Note 6. Balance Sheet and Other Details

Contract Balances

Unbilled Receivables: The Company records a receivable when an unconditional right to consideration exists and transfer of control has occurred, such that only the passage of time is required before payment of consideration is due. Timing of revenue recognition may differ from the timing of customer invoicing. Payment terms vary based on product or service offerings and payment is generally required within 30 to 90 days from date of invoicing. Certain performance obligations may require payment before delivery of the service to the customer.

Contract assets: A Contract Asset is recognized when a conditional right to consideration exists and transfer of control has occurred. Contract Assets include fixed fee professional services, where the transfer of services has occurred in advance of the Company's right to invoice. Contract Assets, included in Accounts receivable, net, on the Consolidated Balance Sheets, are not material to the Consolidated Financial Statements. Contract Asset balances will fluctuate based upon the timing of transfer of services, billings and customers' acceptance of contractual milestones.

Gross receivables include both billed and Unbilled Receivables/Contract Assets. As of July 1, 2023 and July 2, 2022, the Company had total Unbilled Receivables/Contract Assets of \$13.7 million and \$7.3 million, respectively.

Deferred revenue: Deferred revenue consists of contract liabilities primarily related to support, solution deployment services, software maintenance, product, professional services, and training when the Company has a right to invoice or payments have been received and transfer of control has not occurred. Revenue is recognized on these items when the revenue recognition criteria are met, generally resulting in ratable recognition over the contract term. Contract liabilities are included in Other current liabilities on the Consolidated Balance Sheets.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company also has short-term and long-term deferred revenues related to undelivered hardware and professional services, consisting of installations and consulting engagements, which are recognized as the Company's performance obligations under the contract are completed and accepted by the customer.

The following table summarizes the activity related to deferred revenue, for the year ended July 1, 2023 (*in millions*):

	July 1, 2023
Deferred revenue:	
Balance at beginning of period	\$ 100.4
Revenue deferrals for new contracts ⁽¹⁾	127.9
Revenue recognized during the period ⁽²⁾	(126.3)
Balance at end of period ⁽³⁾	\$ 102.0
Short-term deferred revenue	\$ 78.6
Long-term deferred revenue	\$ 23.4

(1) Included in these amounts is the impact from foreign currency exchange rate fluctuations.

(2) Revenue recognized during the period represents releases from the balance at the beginning of the period as well as releases from the following period quarter-end deferrals.

(3) The long-term portion of deferred revenue is included as a component of Other non-current liabilities on the Consolidated Balance Sheets.

Remaining performance obligations: Remaining performance obligations represent the aggregate amount of the transaction price allocated to performance obligations not delivered or are incomplete, as of July 1, 2023. Remaining performance obligations include deferred revenue plus unbilled amounts not yet recorded. The aggregate amount of the transaction price allocated to remaining performance obligations does not include amounts owed under cancellable contracts where there is no substantive termination penalty.

Remaining performance obligation estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidation, adjustments for revenue that has not materialized, and adjustments for currency.

The value of the transaction price allocated to remaining performance obligations as of July 1, 2023, was \$256.3 million. The Company expects to recognize 89% of remaining performance obligations as revenue within the next 12 months, and the remainder thereafter.

Accounts Receivable Allowances

The table below presents the activities and balances for allowance for doubtful accounts, as follows (*in millions*):

	Balance at Beginning of Period	Charged to Costs and Expenses	Deduction ⁽¹⁾	Balance at End of Period
Year Ended July 1, 2023	\$ 1.4	\$ 0.4	\$ (0.8)	\$ 1.0
Year Ended July 2, 2022	\$ 2.0	\$ 0.9	\$ (1.5)	\$ 1.4
Year Ended July 3, 2021	\$ 3.0	\$ 1.1	\$ (2.1)	\$ 2.0

(1) Represents the effect of currency translation adjustments and write-offs of uncollectible accounts, net of recoveries.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories, net

The following table presents the components of inventories, net, as follows (*in millions*):

	<u>July 1, 2023</u>	<u>July 2, 2022</u>
Finished goods	\$ 49.0	\$ 41.6
Work in process	17.7	17.7
Raw materials	49.4	50.8
Inventories, net	<u>\$ 116.1</u>	<u>\$ 110.1</u>

Prepayments and Other Current Assets

The following table presents the components of prepayments and other current assets, as follows (*in millions*):

	<u>July 1, 2023</u>	<u>July 2, 2022</u>
Refundable income taxes	\$ 27.6	\$ 14.5
Prepayments	16.5	16.0
Advances to contract manufacturers	9.8	11.8
Transaction tax receivables	5.1	10.4
Fair value of forward contracts	3.5	3.8
Assets held for sale	2.5	2.5
Other current assets	7.1	10.2
Prepayments and other current assets	<u>\$ 72.1</u>	<u>\$ 69.2</u>

Property, Plant and Equipment, net

The following table presents the components of property, plant and equipment, net, as follows (*in millions*):

	<u>July 1, 2023</u>	<u>July 2, 2022</u>
Land	\$ 19.6	\$ 19.2
Buildings and improvements	74.9	41.7
Machinery and equipment	362.6	316.7
Furniture, fixtures, software and office equipment	76.7	74.0
Leasehold improvements	70.7	69.8
Construction in progress	24.5	71.2
Property, plant and equipment, gross	<u>629.0</u>	<u>592.6</u>
Less: Accumulated depreciation and amortization	<u>(386.0)</u>	<u>(363.7)</u>
Property, plant and equipment, net	<u>\$ 243.0</u>	<u>\$ 228.9</u>

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current assets

The following table presents the components of other non-current assets, as follows (*in millions*):

	July 1, 2023	July 2, 2022
Operating ROU assets (Note 12)	\$ 40.4	\$ 45.2
Long-term restricted cash	4.6	9.3
Deferred contract cost	2.9	2.4
Debt issuance cost - Revolving Credit Facility	2.8	3.5
Deposits	2.3	1.9
Other non-current assets	8.7	3.5
Other non-current assets	<u>\$ 61.7</u>	<u>\$ 65.8</u>

Other current liabilities

The following table presents the components of other current liabilities, as follows (*in millions*):

	July 1, 2023	July 2, 2022
Operating lease liabilities (Note 12)	\$ 10.1	\$ 10.1
Income tax payable	4.4	9.6
Restructuring accrual (Note 13)	5.8	—
Interest payable	5.5	4.6
Transaction tax payable	4.3	11.5
Warranty accrual	4.2	4.4
Acquisition related holdback and related accruals	4.1	0.1
Fair value of forward contracts	2.4	8.4
Fair value of contingent consideration (Note 5)	1.1	1.8
Other	7.9	5.8
Other current liabilities	<u>\$ 49.8</u>	<u>\$ 56.3</u>

Other Non-current Liabilities

The following table presents the components of other non-current liabilities, as follows (*in millions*):

	July 1, 2023	July 2, 2022
Pension and post-employment benefits	\$ 53.2	\$ 59.6
Operating lease liabilities (Note 12)	29.4	33.5
Long-term deferred revenue	23.4	19.4
Fair value of contingent consideration (Note 5)	18.6	0.7
Financing obligation	15.8	16.0
Uncertain tax position	15.8	12.9
Deferred tax liability	13.9	9.5
Warranty accrual	4.8	6.2
Asset retirement obligations	3.8	3.7
Other	8.0	8.9
Other non-current liabilities	<u>\$ 186.7</u>	<u>\$ 170.4</u>

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest and Other Income, net

The following table presents the components of interest and other income, net, as follows (*in millions*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Interest income	\$ 10.2	\$ 3.4	\$ 2.9
Foreign exchange gain, net	(2.2)	1.4	—
Other income, net	(0.4)	0.4	0.4
Interest and other income, net	<u>\$ 7.6</u>	<u>\$ 5.2</u>	<u>\$ 3.3</u>

Note 7. Investments and Forward Contracts

Short-Term Investments

As of July 1, 2023, the Company's short-term investments of \$14.6 million were comprised of a 30-day term deposit of \$13.1 million and trading securities related to the deferred compensation plan of \$1.5 million, of which \$0.1 million was invested in debt securities, \$1.2 million was invested in equity securities and \$0.2 million was invested in money market instruments. Trading securities are reported at fair value, with the unrealized gains or losses resulting from changes in fair value recognized in the Consolidated Statements of Operations as a component of Interest and other income, net.

As of July 2, 2022, the Company's short-term investments of \$1.4 million were comprised of trading securities related to the deferred compensation plan, of which \$0.3 million was invested in debt securities, \$1.0 million was invested in equity securities and \$0.1 million was invested in money market instruments. Trading securities are reported at fair value, with the unrealized gains or losses resulting from changes in fair value recognized in the Consolidated Statements of Operations as a component of Interest and other income, net.

Non-Designated Foreign Currency Forward Contracts

The Company has foreign subsidiaries that operate and sell the Company's products in various markets around the world. As a result, the Company is exposed to foreign exchange risks. The Company utilizes foreign exchange forward contracts to manage foreign currency risk associated with foreign currency denominated monetary assets and liabilities, primarily certain short-term intercompany receivables and payables, and to reduce the volatility of earnings and cash flows related to foreign-currency transactions. The Company does not use these foreign currency forward contracts for trading purposes.

As of July 1, 2023, the Company had forward contracts that were effectively closed but not settled with the counterparties by year end. Therefore, the fair value of these contracts of \$3.5 million and \$2.4 million is reflected as Prepayments and other current assets and Other current liabilities on the Consolidated Balance Sheets, respectively. As of July 2, 2022, the fair value of these contracts of \$3.8 million and \$8.3 million is reflected as Prepayments and other current assets and Other current liabilities on the Consolidated Balance Sheets, respectively.

The forward contracts outstanding and not effectively closed, with a term of less than 120 days, were transacted near fiscal year end; therefore, the fair value of the contracts is minimal as of July 1, 2023 and a value of \$0.1 million is reflected in Other current liabilities on the Consolidated Balance Sheets as of July 2, 2022. As of July 1, 2023 and July 2, 2022, the notional amounts of the forward contracts that the Company held to purchase foreign currencies were \$87.5 million and \$119.1 million, respectively, and the notional amounts of forward contracts that Company held to sell foreign currencies were \$19.3 million and \$80.5 million, respectively.

The change in the fair value of these foreign currency forward contracts is recorded as gain or loss in the Consolidated Statements of Operations as a component of Interest and other income, net. The cash flows related to the settlement of foreign currency forward contracts are classified as operating activities. The foreign exchange forward contracts incurred a gain of \$1.2 million and a loss of \$8.3 million for the years ended July 1, 2023 and July 2, 2022, respectively.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Fair Value Measurements

Fair Value Measurements

The Company's assets and liabilities measured at fair value for the periods presented are as follows (*in millions*):

	July 1, 2023				July 2, 2022			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Debt available-for-sale securities:								
Asset-backed securities ⁽¹⁾	\$ 0.3	\$ —	\$ 0.3	\$ —	\$ 0.6	\$ —	\$ 0.6	\$ —
Total debt available-for-sale securities	0.3	—	0.3	—	0.6	—	0.6	—
Money market funds ⁽²⁾	344.8	344.8	—	—	313.2	313.2	—	—
Trading securities ⁽³⁾	1.5	1.5	—	—	1.4	1.4	—	—
Foreign currency forward contracts ⁽⁴⁾	3.5	—	3.5	—	3.8	—	3.8	—
Total assets	\$ 350.1	\$ 346.3	\$ 3.8	\$ —	\$ 319.0	\$ 314.6	\$ 4.4	\$ —
Liability:								
Foreign currency forward contracts ⁽⁵⁾	2.4	\$ —	2.4	—	8.4	—	8.4	\$ —
Contingent consideration ⁽⁶⁾	19.7	—	—	19.7	2.5	—	—	2.5
Total liabilities	\$ 22.1	\$ —	\$ 2.4	\$ 19.7	\$ 10.9	\$ —	\$ 8.4	\$ 2.5

(1) Included in Other non-current assets on the Consolidated Balance Sheets.

(2) Includes, as of July 1, 2023, \$336.5 million in cash and cash equivalents, \$4.3 million in restricted cash and \$4.0 million in Other non-current assets on the Consolidated Balance Sheets. Includes, as of July 2, 2022, \$301.5 million in cash and cash equivalents, \$3.1 million in restricted cash, and \$8.6 million in Other non-current assets on the Consolidated Balance Sheets.

(3) Included in Short-term investments on the Consolidated Balance Sheets.

(4) Included in Other current assets on the Consolidated Balance Sheets.

(5) Included in Other current liabilities on the Consolidated Balance Sheets.

(6) As of July 1, 2023 and July 2, 2022, includes certain amounts in Other current liabilities and Other non-current liabilities on the Consolidated Balance Sheets.

Other Fair Value Measures

Fair Value of Debt: If measured at fair value on the Consolidated Balance Sheets, the Company's 3.75% Senior Notes (2029 Notes), 1.625% Senior Convertible Notes (2026 Notes), 1.00% Senior Convertible Notes (2024 Notes) and 1.75% Senior Convertible Notes (2023 Notes) would be classified in Level 2 of the fair value hierarchy as they are not actively traded in the markets. The Company's debt measured at fair value for the periods presented are as follows:

	July 1, 2023				July 2, 2022			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Debt:								
3.75% Senior Notes	\$ 341.8	\$ —	\$ 341.8	\$ —	\$ 337.5	\$ —	\$ 337.5	\$ —
1.625% Senior Convertible Notes	262.7	—	262.7	—	—	—	—	—
1.00% Senior Convertible Notes	95.6	—	95.6	—	250.7	—	250.7	—
1.75% Senior Convertible Notes	—	—	—	—	73.4	—	73.4	—
Total liabilities	\$ 700.1	\$ —	\$ 700.1	\$ —	\$ 661.6	\$ —	\$ 661.6	\$ —

See "Note 11. Debt", for further discussion of the Company's debt.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Goodwill

Changes in the carry value of goodwill allocated segment are as follows (*in millions*):

	Network Enablement	Service Enablement	Optical Security and Performance Products	Total
Balance as of July 3, 2021 ⁽¹⁾	\$ 349.7	\$ 4.6	\$ 42.2	\$ 396.5
Acquisitions ⁽²⁾	—	10.0	—	10.0
Currency translation and other adjustments	(18.1)	(0.8)	—	(18.9)
Balance as of July 2, 2022 ⁽³⁾	\$ 331.6	\$ 13.8	\$ 42.2	\$ 387.6
Acquisitions ⁽²⁾	60.0	—	—	60.0
Measurement period adjustment ⁽²⁾	(0.5)	—	—	(0.5)
Currency translation adjustments	6.9	1.2	—	8.1
Balance as of July 1, 2023 ⁽⁴⁾	<u>\$ 398.0</u>	<u>\$ 15.0</u>	<u>\$ 42.2</u>	<u>\$ 455.2</u>

(1) Gross goodwill balances for NE, SE and OSP were \$651.6 million, \$277.2 million and \$126.7 million, respectively as of July 3, 2021. Accumulated impairment for NE, SE and OSP was \$301.9 million, \$272.6 million and \$84.5 million, respectively as of July 3, 2021.

(2) See "Note 5. Acquisitions" of the Notes to Consolidated Financial Statement for additional information related to the Company's acquisitions.

(3) Gross goodwill balances for NE, SE and OSP were \$633.5 million, \$286.4 million and \$126.7 million, respectively as of July 2, 2022. Accumulated impairment for NE, SE and OSP was \$301.9 million, \$272.6 million and \$84.5 million, respectively as of July 2, 2022.

(4) Gross goodwill balances for NE, SE and OSP were \$699.9 million, \$287.6 million and \$126.7 million, respectively as of July 1, 2023. Accumulated impairment for NE, SE and OSP was \$301.9 million, \$272.6 million and \$84.5 million, respectively as of July 1, 2023.

Impairment of Goodwill

The Company tests goodwill at the reporting unit level for impairment annually, during the fourth quarter of each fiscal year, or more frequently if events or circumstances indicate that the asset may be impaired. The Company determined that, based on its organizational structure and the financial information that is provided to and reviewed by the Company's Chief Operating Decision Maker (CODM) during fiscal 2023, 2022 and 2021 that its reporting units were NE, SE and OSP.

As part of the annual impairment test, the Company performed a quantitative assessment of goodwill impairment for all reporting units.

For the quantitative analysis, the Company compares the fair value of a reporting unit to its carrying value. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. However, if the fair value of the reporting unit is less than book value, then goodwill will be impaired by the amount that the carrying amount exceeds the fair value, not to exceed the carrying amount of the goodwill.

To estimate the fair value of each reporting unit, we applied a combination of the income approach and the market approach. The income approach used discounted future cash flows in which sales, operating income and cash flow projections were based on assumptions driven by current economic conditions. The market approach utilized the Guideline Public Company Method and Guideline Transaction Method to derive fair value. The Guideline Public Company Method determines the fair value of an entity based upon trading multiples calculated using market value of minority interests in publicly-traded companies that are similar to the subject company. The Guideline Transaction Method calculates the fair value of an entity by analyzing recent sales of comparable entities.

Based on our testing during the fourth quarter of fiscal 2023, the fair value of each of the Company's reporting units was at least two times the carrying value, and therefore no impairment was identified. In addition, no indications of impairment were identified under the qualitative tests performed for fiscal years ending on July 2, 2022 and July 3, 2021.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10. Acquired Developed Technology and Other Intangibles

The following tables present details of the Company's acquired developed technology, customer relationships and other intangibles as of July 1, 2023, and July 2, 2022, (*in millions*):

As of July 1, 2023	Weighted-Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Acquired developed technology ⁽¹⁾	3.9 years	\$ 438.5	\$ (390.2)	\$ 48.3
Customer relationships	2.0 years	195.2	(185.9)	9.3
Other ⁽²⁾	0.7 years	39.8	(38.8)	1.0
Total intangibles		<u>\$ 673.5</u>	<u>\$ (614.9)</u>	<u>\$ 58.6</u>

As of July 2, 2022	Weighted-Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Acquired developed technology	3.3 years	\$ 416.6	\$ (375.8)	\$ 40.8
Customer relationships	2.8 years	189.7	(177.8)	11.9
Other ⁽²⁾	0.7 years	36.0	(34.5)	1.5
Total intangibles		<u>\$ 642.3</u>	<u>\$ (588.1)</u>	<u>\$ 54.2</u>

(1) During fiscal 2023, we recorded a \$0.6 million non-cash charge due to the discontinued use of certain intellectual property. This charge has been recorded within SG&A in the Consolidated Statements of Operations.

(2) Other intangibles consist of customer backlog, patents, proprietary know-how and trade secrets, trademarks and trade names.

Based on the carrying amount of acquired developed technology, customer relationships and other intangibles as of July 1, 2023, and assuming no future impairment of the underlying assets, the estimated future amortization is as follows (*in millions*):

Fiscal Years	
2024	\$ 20.2
2025	15.9
2026	11.4
2027	7.5
2028	3.0
Thereafter	0.6
Total amortization	<u>\$ 58.6</u>

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Debt

As of July 1, 2023 and July 2, 2022, the Company's debt on the Consolidated Balance Sheets was as follows, including the carrying amounts of the Senior Convertible and Senior Notes, net of unamortized issuance costs (*in millions*):

	July 1, 2023	July 2, 2022
Principal amount of 1.00% Senior Convertible Notes	\$ 96.4	\$ —
Unamortized 1.00% Senior Convertible Notes debt issuance cost	(0.2)	—
Principal amount of 1.75% Senior Convertible Notes	—	68.1
Unamortized 1.75% Senior Convertible Notes debt issuance cost	—	(0.1)
Other short-term debt	—	0.4
Short-term debt	<u>\$ 96.2</u>	<u>\$ 68.4</u>
Principal amount of 3.75% Senior Notes	\$ 400.0	\$ 400.0
Unamortized 3.75% Senior Notes debt issuance cost	(5.5)	(6.4)
Principal amount of 1.625% Senior Convertible Notes	250.0	—
Unamortized 1.625% Senior Convertible Notes debt discount	(12.9)	—
Unamortized 1.625% Senior Convertible Notes debt issuance cost	(2.1)	—
Principal amount of 1.00% Senior Convertible Notes	—	223.9
Unamortized 1.00% Senior Convertible Notes debt issuance cost	—	(1.0)
Long-term debt	<u>\$ 629.5</u>	<u>\$ 616.5</u>

The Company was in compliance with all debt covenants as of July 1, 2023 and July 2, 2022.

1.625% Senior Convertible Notes (2026 Notes)

On March 6, 2023, the Company issued \$250.0 million aggregate principal amount of 1.625% Senior Convertible Notes due 2026 in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Company issued \$132.0 million aggregate principal amount of the 2026 Notes to certain holders of the 1.00% Senior Convertible Notes due 2024 (2024 Notes) in exchange for \$127.5 million principal amount of the 2024 Notes (the Exchange Transaction) and issued and sold \$118.0 million aggregate principal amount of the 2026 Notes in a private placement to accredited institutional buyers (the Subscription Transactions).

The Exchange Transaction was accounted for as a modification. The \$127.5 million principal of the 2024 Notes was reduced by \$10.1 million, with offsetting increase to additional paid-in capital, to account for the increase in the fair value of the embedded conversion option in the modification. The increase in principal and coupon interest, along with the increased option value, totaled \$14.6 million and is a direct reduction from the carrying amount of the debt on the Consolidated Balance Sheets. This amount will be accreted as an adjustment to interest expense on a straight-line basis and will accrete up to the full face value of the 2026 Notes at maturity.

The proceeds of the Subscription Transactions amounted to \$113.8 million after issuance costs of \$4.2 million. The exchange resulted in \$2.2 million of the issuance costs to be recorded as Loss on convertible note modification in the Consolidated Statements of Operations. The remaining issuance costs of \$2.0 million as well as \$0.3 million of unamortized issuance costs carried over from the 2024 Notes at the exchange date were capitalized within Long-term debt (as a contra-balance) on the Consolidated Balance Sheets and will be amortized as an adjustment to interest expense on a straight-line basis until maturity.

The 2026 Notes are an unsecured obligation of the Company and bear interest at an annual rate of 1.625%, payable in cash semi-annually in arrears on March 15 and September 15 of each year, beginning September 15, 2023. The 2026 Notes mature on March 15, 2026 unless earlier converted, redeemed or repurchased.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The 2026 Notes may be converted under certain circumstances, based on an initial conversion rate of 75.7963 shares (equivalent to an initial conversion price of approximately \$13.19 per share) at the option of the holders into cash up to the principal amount, with the remaining amount converted into cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock at the Company's election. The initial conversion price represents a 22.5% premium to the closing price of the Company's common stock on the pricing date, March 1, 2023, which will be subject to customary anti-dilution adjustments.

The 2026 Notes may be converted at any time on or prior to the close of business on the business day immediately preceding December 15, 2025, in multiples of \$1,000 principal amount, at the option of the holder under the following circumstances:

- On any date during any calendar quarter beginning after June 30, 2023 (and only during such calendar quarter) if the closing price of the Company's common stock was more than 130% of the then current conversion price for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading-day period ending on the last trading day of the previous calendar quarter;
- If the Company distributes to all or substantially all holders of its common stock rights or warrants (other than pursuant to a stockholder rights plan) entitling them to purchase, for a period of 45 calendar days or less, shares of VIAVI's common stock at a price less than the average closing sale price of VIAVI's common stock for the ten trading days preceding the declaration date for such distribution;
- If the Company distributes to all or substantially all holders of its common stock, cash or other assets, debt securities or rights to purchase our securities (other than pursuant to a stockholder rights plan), at a per share value exceeding 10% of the closing sale price of the Company's common stock on the trading day preceding the declaration date for such distribution;
- If the Company is party to a specified transaction, a fundamental change or a make-whole fundamental change (each as defined in the indenture of the 2026 Notes); or
- During the five consecutive business-day period immediately following any ten consecutive trading-day period in which the trading price per \$1,000 principal amount of the 2026 Notes for each day during such ten consecutive trading-day period was less than 98% of the product of the closing sale price of VIAVI's common stock and the applicable conversion rate on such date.
- If the Company calls any or all of the 2026 Notes for Optional Redemption.

During the periods from, and including, December 15, 2025 until the close of business on the business day immediately preceding March 15, 2026, holders may convert the 2026 Notes at any time regardless of the foregoing circumstances.

Holders of the 2026 Notes may require the Company to purchase all or a portion of the 2026 Notes upon the occurrence of a fundamental change at a purchase price equal to 100% of the principal amount of the 2026 Notes to be purchased, plus accrued and unpaid interest to, but excluding, the fundamental repurchase date.

The Company may not redeem the 2026 Notes prior to March 20, 2025. The Company may redeem for cash all or part of the 2026 Notes, at its option, on or after March 20, 2025 if the closing price of the Company's common stock was at least 130% of the then current conversion price for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides the redemption notice in accordance with the Indenture. If the Company redeems less than all the outstanding 2026 Notes, at least \$75.0 million aggregate principal amount of 2026 Notes must be outstanding and not subject to redemption as of the relevant redemption notice date.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Indenture provides for customary events of default, including payment defaults, breaches of covenants, failure to pay certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, the principal amount of the 2026 Notes, plus accrued and unpaid interest, if any, may be declared immediately due and payable, subject to certain conditions set forth in the Indenture. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.

As of July 1, 2023, the expected remaining term of the 2026 Notes is 2.7 years.

3.75% Senior Notes (2029 Notes)

On September 29, 2021, the Company issued \$400.0 million aggregate principal amount of 3.75% Senior Notes due 2029 in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. In connection with the issuance of the 2029 Notes, the Company incurred \$7.0 million of issuance costs. The debt issuance costs were capitalized and are being amortized to interest expense using the straight-line method. The 2029 Notes are an unsecured obligation of the Company and bear annual interest of 3.75%, payable semi-annually in arrears on April 1 and October 1 of each year, beginning April 1, 2022. The 2029 Notes mature on October 1, 2029 unless earlier redeemed or repurchased. As of July 1, 2023, the expected remaining term of the 2029 Notes is 6.2 years.

1.75% Senior Convertible Notes (2023 Notes)

On May 29, 2018, the Company issued \$225.0 million aggregate principal amount of 1.75% Senior Convertible Notes due 2023 in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Company issued \$155.5 million aggregate principal of the 2023 Notes to certain holders of the 2033 Notes in exchange for \$151.5 million principal of the 2033 Notes and issued and sold \$69.5 million aggregate principal amount of the 2023 Notes in a private placement to accredited institutional buyers (the Private Placement).

In connection with the issuance of the 2023 Notes, the Company incurred \$2.2 million of issuance costs. The debt issuance costs were capitalized and amortized to interest expense using the effective interest rate method from issuance date through maturity on June 1, 2023.

See Senior Convertible Notes Settlement section below for details of the 2023 Notes exchange transactions during fiscal 2022. On June 1, 2023, remaining 2023 Notes were retired upon maturity.

1.00% Senior Convertible Notes (2024 Notes)

On March 3, 2017, the Company issued \$400.0 million aggregate principal amount of 1.00% Senior Convertible Notes due 2024 in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. On March 22, 2017, the Company issued an additional \$60.0 million upon exercise of the over-allotment option of the initial purchasers. The total proceeds from the 2024 Notes amounted to \$451.1 million after issuance costs. The 2024 Notes are an unsecured obligation of the Company and bear interest at an annual rate of 1.00% payable in cash semi-annually in arrears on March 1 and September 1 of each year. The 2024 Notes mature on March 1, 2024 unless earlier converted or repurchased.

In connection with the issuance of the 2024 Notes, the Company incurred \$8.9 million of issuance costs. The debt issuance costs were capitalized and are being amortized to interest expense using the straight-line method.

The 2024 Notes may be converted under certain circumstances, based on an initial conversion rate of 75.6229 shares (equivalent to an initial conversion price of approximately \$13.22 per share), at the option of the holders into cash up to the principal amount, with the remaining amount converted into cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock at the Company's election. The conversion rate, and thus the conversion price, may be adjusted under certain circumstances. The initial conversion price represents a 32.5% premium to the closing sale price of the Company's common stock on the pricing date, February 27, 2017, which will be subject to customary anti-dilution adjustments.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The 2024 Notes may be converted at any time on or prior to the close of business on the business day immediately preceding December 1, 2023, in multiples of \$1,000 principal amount, at the option of the holder only under the following circumstances:

- On any date during any calendar quarter beginning after June 30, 2017 (and only during such calendar quarter) if the closing price of the Company's common stock was more than 130% of the then current conversion price for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading-day period ending on the last trading day of the previous calendar quarter;
- If the Company distributes to all or substantially all holders of its common stock rights or warrants (other than pursuant to a stockholder rights plan) entitling them to purchase, for a period of 45 calendar days or less, shares of VIAMI's common stock at a price less than the average closing sale price of VIAMI's common stock for the ten trading days preceding the declaration date for such distribution;
- If the Company distributes to all or substantially all holders of its common stock, cash or other assets, debt securities or rights to purchase our securities (other than pursuant to a stockholder rights plan), at a per share value exceeding 10% of the closing sale price of the Company's common stock on the trading day preceding the declaration date for such distribution;
- If the Company is party to a specified transaction, a fundamental change or a make-whole fundamental change (each as defined in the Indenture of the 2024 Notes); or
- During the five consecutive business-day period immediately following any ten consecutive trading-day period in which the trading price per \$1,000 principal amount of the 2024 Notes for each day of such ten consecutive trading-day period was less than 98% of the product of the closing sale price of VIAMI's common stock and the applicable conversion rate on such date.

During the periods from, and including December 1, 2023 until the close of business on the business day immediately preceding March 1, 2024, holders may convert the 2024 Notes at any time regardless of the foregoing circumstances.

Holders of the 2024 Notes may require the Company to purchase all or a portion of the 2024 Notes upon the occurrence of a fundamental change at a purchase price equal to 100% of the principal amount of the 2024 Notes to be purchased, plus accrued and unpaid interest to, but excluding, the fundamental repurchase date.

The Indenture provides for customary events of default, including payment defaults, breaches of covenants, failure to pay certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, the principal amount of the 2024 Notes, plus accrued and unpaid interest, if any, may be declared immediately due and payable, subject to certain conditions set forth in the Indenture. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.

As of July 1, 2023, the expected remaining term of the 2024 Notes is 0.7 years. See Senior Convertible Notes Settlement section below for details of the 2024 Notes exchange transactions during fiscal 2022.

Senior Convertible Notes Settlement

On September 2, 2021, the Company entered into separate privately-negotiated agreements with certain holders of its 2023 and 2024 Notes. The Company settled \$93.8 million principal amount of the 2023 Notes and \$181.2 million principal amount of the 2024 Notes in exchange for an aggregate of 10.6 million shares of its common stock, par value \$0.001 per share, and \$196.5 million in cash. The Company recorded a loss of \$85.9 million in connection with the settlement transactions which is presented as Loss on convertible note settlement in the Consolidated Statements of Operations.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On November 17, 2021 and November 22, 2021, the Company entered into separate privately-negotiated agreements with certain holders of its 2023 and 2024 Notes. The Company settled \$20.6 million principal amount of the 2023 Notes and \$25.0 million principal amount of the 2024 Notes in exchange for \$59.0 million in cash. The Company recorded a loss of \$6.4 million in connection with the settlement transactions which is presented as Loss on convertible note settlement in the Consolidated Statements of Operations.

On March 2, 2022, the Company entered into separate privately-negotiated agreements with certain holders of its 2023 and 2024 Notes. The Company settled \$23.2 million principal amount of the 2023 Notes and \$26.8 million principal amount of the 2024 Notes in exchange for \$64.7 million in cash. The Company recorded a loss of \$6.4 million in connection with the settlement transactions which is presented as Loss on convertible note settlement in the Consolidated Statements of Operations.

On June 3, 2022, the Company entered into separate privately-negotiated agreements with certain holders of its 2023 and 2024 Notes. The Company settled \$19.3 million principal amount of the 2023 Notes and \$3.1 million principal amount of the 2024 Notes in exchange for \$27.1 million in cash. The Company recorded a loss of \$3.1 million in connection with the settlement transactions which is presented as Loss on convertible note settlement in the Consolidated Statements of Operations.

Senior Secured Asset-Based Revolving Credit Facility

On December 30, 2021, we entered into a credit agreement (the Credit Agreement) with Wells Fargo Bank, National Association (Wells Fargo) as administrative agent, and other lender related parties. The Credit Agreement provides for a senior secured asset-based revolving credit facility in a maximum aggregate amount of \$300 million, which matures on December 30, 2026. The Credit Agreement also provides that, under certain circumstances, the Company may increase the aggregate amount of revolving commitments thereunder by an aggregate amount of up to \$100 million so long as certain conditions are met. The proceeds from the credit facility established under the Credit Agreement will be used for working capital and other general corporate purposes. The obligations under the Credit Agreement are secured by substantially all of the assets of the Company and those of its subsidiaries that are borrowers and guarantors under the Credit Agreement.

Amounts outstanding under the Credit Agreement accrue interest as follows: (i) if the amounts outstanding are denominated in US Dollars, at a per annum rate equal to either, at the Company's election, Term Secured Overnight Financing Rate (SOFR) plus a margin of 1.35% to 1.85% per annum, or a specified base rate plus a margin of 0.25% to 0.75%, in each case, depending on the average excess availability under the facility, (ii) if the amounts outstanding are denominated in Sterling, at a per annum rate equal to the Sterling Overnight Interbank Average Rate (SONIA) plus a margin of 1.2825% to 1.7825%, depending on the average excess availability under the facility, (iii) if the amounts outstanding are denominated in Euros, at a per annum rate equal to the Euro Interbank Offered Rate plus a margin of 1.25% to 1.75%, depending on the average excess availability under the facility, or (iv) if the amounts outstanding are denominated in Canadian Dollars, at a per annum rate equal to either, at the Company's election, the Canadian Dollar Offered Rate plus a margin of 1.25% to 1.75%, or a specified base rate plus a margin of 0.25% to 0.75%, in each case, depending on the average excess availability under the facility.

The covenants of the Credit Agreement include customary restrictive covenants that, among other things, restrict the Company's ability to incur additional indebtedness, grant liens and make certain acquisitions, investments, asset dispositions and restricted payments. In addition, the Credit Agreement contains certain financial covenants that require the Company to maintain a fixed charge coverage ratio of at least 1.00 to 1.00 if excess availability under the facility is less than the greater of 10% of the lesser of maximum revolver amount and borrowing base and \$20 million.

As of July 1, 2023, we had no borrowings under this facility and our available borrowing capacity was approximately \$172.5 million, net of outstanding standby letters of credit of \$4.1 million.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revolving Credit Facility

On May 5, 2020, the Company entered into a credit agreement with Wells Fargo as administrative agent, and other lender related parties. The Company borrowed \$150 million and repaid \$150 million under this Credit Agreement during the first quarter of fiscal 2022. In connection with the entry into the Senior Secured Asset-Based Revolving Credit Facility noted above, the Company terminated this facility.

Interest Expense

The following table presents the interest expense for contractual interest and amortization of debt issuance costs (*in millions*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Interest expense-contractual interest	\$ 19.2	\$ 16.5	\$ 8.5
Amortization of debt issuance cost	2.5	2.8	2.3
Accretion of debt discount	1.6	—	—
Other	3.8	4.0	3.9
Total Interest Expense	\$ 27.1	\$ 23.3	\$ 14.7

The effective interest rate on the Company's contractual debt was 2.65%, 2.25% and 1.25% for fiscal 2023, 2022 and 2021, respectively.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Leases

The Company is a lessee in several operating leases, primarily real estate facilities for office space. The Company's lease arrangements are composed of operating leases with various expiration dates through March 31, 2042. The Company's leases do not contain any material residual value guarantees.

Lease expense, cash flow and balance sheet information related to our operating leases is as follows (*in millions*):

	July 1, 2023	July 2, 2022
Operating lease costs ⁽¹⁾	\$ 13.1	\$ 14.0
Cash paid for amounts included in the measurement of operating lease liabilities	14.4	15.5
Operating ROU assets obtained in exchange for operating lease obligations	7.0	14.7
Operating ROU assets (Other non-current assets)	40.4	45.2
Other current liabilities	10.1	10.1
Other non-current liabilities	29.4	33.5
Total operating lease liabilities	<u>\$ 39.5</u>	<u>\$ 43.6</u>
Weighted-average remaining lease term	6.8 years	7.2 years
Weighted-average discount rate	4.8 %	4.4 %

(1) Total variable lease costs were immaterial during the fiscal years ended July 1, 2023 and July 2, 2022. The total operating costs were included in cost of revenues, R&D and SG&A in the Consolidated Statements of Operations.

Future minimum operating lease payments as of July 1, 2023 are as follows (*in millions*):

	Operating Leases
Fiscal 2024	\$ 10.3
Fiscal 2025	9.4
Fiscal 2026	7.2
Fiscal 2027	5.6
Fiscal 2028	4.0
Thereafter	9.7
Total lease payments	<u>46.2</u>
Less: Interest	<u>(6.7)</u>
Present value of lease liabilities	<u>\$ 39.5</u>

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum operating lease payments as of July 2, 2022, were as follows (*in millions*):

	Operating Leases
Fiscal 2023	\$ 10.2
Fiscal 2024	9.8
Fiscal 2025	7.8
Fiscal 2026	6.0
Fiscal 2027	4.6
Thereafter	12.8
Total lease payments	<u>51.2</u>
Less: Interest	(7.6)
Present value of lease liabilities	<u>\$ 43.6</u>

Note 13. Restructuring and Related Charges

The Company's restructuring events are primarily intended to reduce costs, consolidate operations, integrate various acquisitions, streamline product manufacturing and address market conditions. Restructuring charges include severance, benefit and outplacement costs to eliminate a specified number of positions. The timing of associated cash payments is dependent upon the jurisdiction of the affected employees and can extend over multiple periods.

Fiscal 2023 Plan

During the second quarter of fiscal 2023, Management approved a restructuring and workforce reduction plan (the Fiscal 2023 Plan) to better align the Company's workforce with current business needs and strategic growth opportunities. The Company expects approximately 5% of its global workforce to be affected.

As a result, the Company recorded charges of \$12.1 million during the year to Restructuring and related charges (benefits) line within our Consolidated Statements of Operations, of which \$10.4 million is related to Phase I of the Fiscal 2023 Plan and \$1.7 million is related to Phase II of the Fiscal 2023 Plan. The first phase of the Fiscal 2023 Plan impacted all segments and corporate functions and the Company anticipates this phase of the Fiscal 2023 Plan to be substantially complete by the end of the first quarter of fiscal 2024. The second phase of the Fiscal 2023 Plan is primarily focused on reducing costs in our SE segment and the Company anticipates this phase of the Fiscal 2023 Plan to be substantially complete by the end of the second quarter of fiscal 2024.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the activity in the restructuring accrual is outlined below (in millions):

	Balance as of July 2, 2022	Restructuring and related charges	Cash Settlements	Balance as of July 1, 2023
Fiscal 2023 Plan				
<i>NSE/Corp</i>	\$ —	\$ 9.1	\$ (5.6)	\$ 3.5
<i>OSP</i>	—	1.3	(0.7)	0.6
Fiscal 2023 Plan Phase I	—	10.4	(6.3)	4.1
<i>NSE</i>	—	1.7	—	1.7
Fiscal 2023 Plan Phase II	—	1.7	—	1.7
Total ⁽¹⁾	\$ —	\$ 12.1	\$ (6.3)	\$ 5.8

(1) Included in Other current liabilities on the Consolidated Balance Sheets as of July 1, 2023.

Other Plans

During fiscal 2022 and 2021, the Company recorded a benefit related to restructuring actions of \$0.1 million and \$1.6 million, respectively.

Note 14. Income Taxes

The Company's income (loss) before income taxes consisted of the following (*in millions*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Domestic	\$ (37.6)	\$ (82.6)	\$ (21.7)
Foreign	98.3	147.7	152.5
Income before income taxes	<u>\$ 60.7</u>	<u>\$ 65.1</u>	<u>\$ 130.8</u>

The Company's income tax expense (benefit) consisted of the following (*in millions*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Federal:			
Current	\$ —	\$ —	\$ —
Deferred	—	—	—
Total federal income tax expense	—	—	—
State:			
Current	2.6	(2.2)	20.1
Deferred	—	—	—
Total state income tax expense (benefit)	2.6	(2.2)	20.1
Foreign:			
Current	27.6	63.2	44.8
Deferred	5.0	(11.4)	(1.6)
Total foreign income tax expense	32.6	51.8	43.2
Total income tax expense	<u><u>\$ 35.2</u></u>	<u><u>\$ 49.6</u></u>	<u><u>\$ 63.3</u></u>

The state current expense primarily relates to the impact of additional capitalization of R&D costs.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The foreign current expense primarily relates to the Company's profitable operations in certain foreign jurisdictions. The foreign deferred tax expense primarily relates to deferred tax expense accrued on intercompany dividends.

A reconciliation of the Company's income tax expense at the federal statutory rate to the income tax expense at the effective tax rate is as follows (*in millions*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Income tax expense computed at federal statutory rate	\$ 12.8	\$ 13.7	\$ 27.5
Withholding Taxes	8.0	8.7	8.7
U.S. Inclusion of foreign earnings	1.3	19.8	3.6
Internal Intellectual Property Restructuring	1.2	10.1	19.1
Valuation allowance	0.5	3.3	1.0
Foreign rate differential	4.5	6.9	3.9
Reserves	2.9	1.7	1.5
Permanent items	1.1	0.3	(0.6)
Fair value change of the earn-out liability	(1.0)	0.1	(1.5)
Impact of prior years' taxes	(0.5)	(8.6)	(2.1)
Research and experimentation benefits and other tax credits	(1.3)	(1.1)	(0.5)
State taxes	2.6	0.8	0.9
Disallowed compensations	3.3	2.2	1.4
Senior Convertible Notes settlements	—	(8.3)	—
Other	(0.2)	—	0.4
Income tax expense	<u>\$ 35.2</u>	<u>\$ 49.6</u>	<u>\$ 63.3</u>

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of the Company's net deferred taxes consisted of the following (*in millions*):

	Balance as of		
	July 1, 2023	July 2, 2022	July 3, 2021
Gross deferred tax assets:			
Tax credit carryforwards	\$ 136.4	\$ 136.7	\$ 135.7
Net operating loss carryforwards	437.5	491.8	536.1
Capital loss carryforwards	1.1	1.0	1.1
Inventories	40.2	34.5	28.9
Accruals and reserves	58.1	58.5	66.5
Intangibles including acquisition-related items	597.5	603.6	632.4
Capitalized research costs	186.7	100.3	15.7
Other	44.3	45.7	65.9
Gross deferred tax assets	1,501.8	1,472.1	1,482.3
Valuation allowance	(1,351.5)	(1,320.8)	(1,308.9)
Deferred tax assets	150.3	151.3	173.4
Gross deferred tax liabilities:			
Acquisition-related items	(30.9)	(31.9)	(29.1)
Tax on unrepatriated earnings	(13.7)	(7.2)	(18.4)
Foreign branch taxes	(15.0)	(17.8)	(22.2)
Other	(17.7)	(17.6)	(18.7)
Deferred tax liabilities	(77.3)	(74.5)	(88.4)
Total net deferred tax assets	\$ 73.0	\$ 76.8	\$ 85.0

As of July 1, 2023, the Company had federal, state and foreign tax net operating loss carryforwards of \$1,695.5 million, \$364.6 million and \$461.0 million, respectively, and federal and state research tax credit carryforwards of \$81.9 million and \$54.2 million respectively. The federal tax net operating loss carryforwards start to expire in fiscal 2024 and at various dates through 2038 if not utilized. The federal research credit carryforwards start to expire fiscal 2024 and at various dates through fiscal 2044 if not utilized. The state tax net operating loss carryforwards start to expire in fiscal 2024 and at various dates through 2041 if not utilized. The state research credit start to expire in fiscal 2024 but a majority of the state credits have an indefinite carryforward period. In addition, a portion of the foreign tax net operating loss and capital loss carryforwards have an indefinite carryforward period. Utilization of the tax net operating losses may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state and foreign provisions. Loss carryforward limitations may result in the expiration or reduced utilization of a portion of the Company's net operating losses.

During fiscal 2022, the Company completed a planned internal transaction moving certain of VIAVI's intellectual properties out of a foreign jurisdiction where tax rates are scheduled to increase to the U.S. entity established in fiscal 2021 to own and manage VIAVI's other intellectual properties. The Company recorded foreign tax expense of \$13.2 million related to this transaction.

Foreign withholding taxes associated with the repatriation of earnings of foreign subsidiaries have not been provided on \$7.9 million of undistributed earnings for certain foreign subsidiaries. The Company intends to reinvest these earnings indefinitely outside of the United States. The Company estimates that an additional \$1.0 million of foreign withholding taxes would have to be provided if these earnings were repatriated back to the U.S.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal 2021, the Company completed a planned series of internal transactions restructuring certain of VIAVI's intellectual properties. The result of which aligned the properties in a single entity which owns, manages, directs, and protects the properties, including but not limited to patents, product designs, processes, manufacturing technologies, know-how, and trade secrets. In conjunction with the internal restructuring \$2.3 billion (\$482 million tax effected) of U.S. federal net operating loss carryforwards were utilized, and the Company recognized a new deferred tax asset relating to the book and tax basis difference of certain intangible assets of \$589 million. Given the full valuation allowance that is carried on the Company's U.S. deferred tax assets, the change in the deferred taxes as a result of the transaction does not have a material impact on the financial statements. The Company recorded state tax expense including reserves for uncertain tax positions of \$19.1 million related to this transaction.

The valuation allowance increased by \$30.7 million in fiscal 2023, increased by \$11.9 million in fiscal 2022, and decreased by \$114.2 million in fiscal 2021. The increase during fiscal 2023 was primarily due to the increase in capitalization of federal research expenditures in the U.S. This includes the effects of the mandatory capitalization and amortization of research and development expenses incurred in fiscal 2023, as required by the 2017 Tax Cuts and Jobs Act (Tax Act). The increase during fiscal 2022 was primarily due to the increase in capitalization of federal research expenditures in the U.S. The decrease during fiscal 2021 was primarily due to the expiration of federal net operating losses, federal capital losses, and federal research credits. The following table provides information about the activity of our deferred tax valuation allowance (*in millions*):

Deferred Tax Valuation Allowance	Balance at Beginning of Period	Additions Charged to Expenses or Other Accounts ⁽¹⁾	Deductions Credited to Expenses or Other Accounts ⁽²⁾	Balance at End of Period
Year Ended July 1, 2023	\$ 1,320.8	\$ 114.4	\$ (83.7)	\$ 1,351.5
Year Ended July 2, 2022	\$ 1,308.9	\$ 101.7	\$ (89.8)	\$ 1,320.8
Year Ended July 3, 2021	\$ 1,423.1	\$ 617.5	\$ (731.7)	\$ 1,308.9

(1) Additions include current year additions charged to expenses and current year build due to increases in net deferred tax assets, return to provision true-ups, and other adjustments.

(2) Deductions include current year releases credited to expenses and current year reductions due to decreases in net deferred tax assets, return to provision true-ups, other adjustments and increases in deferred tax liabilities.

A reconciliation of unrecognized tax benefits between June 27, 2020 and July 1, 2023 is as follows (*in millions*):

Balance at June 27, 2020	\$ 52.0
Additions based on tax positions related to current year	14.8
Reduction based on tax positions related to prior year	(6.8)
Reduction related to settlement	(0.5)
Reductions for lapse of statute of limitations	(0.4)
Balance at July 3, 2021	59.1
Additions based on tax positions related to current year	0.4
Additions based on tax positions related to prior year	2.6
Reduction based on tax positions related to prior year	(2.6)
Reductions for lapse of statute of limitations	(6.1)
Balance at July 2, 2022	53.4
Additions based on tax positions related to current year	2.7
Addition based on tax positions related to prior year	0.1
Reduction based on tax positions related to prior year	(1.1)
Reductions for lapse of statute of limitations	(0.2)
Balance at July 1, 2023	\$ 54.9

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The unrecognized tax benefits relate primarily to the allocations of revenue and costs among the Company's global operations and the validity of some U.S. tax credits. Included in the balance of unrecognized tax benefits at July 1, 2023 are \$12.9 million of tax benefits that, if recognized, would impact the effective tax rate. Also included in the balance of unrecognized tax benefits at July 1, 2023 are \$38.2 million of tax benefits that, if recognized, would result in adjustments to the valuation allowance.

The Company's policy is to recognize accrued interest and penalties related to unrecognized tax benefits within the income tax provision. The amount of interest and penalties accrued as of July 1, 2023, July 2, 2022 and July 3, 2021 was approximately \$2.9 million, \$2.1 million, and \$4.0 million, respectively. During fiscal 2023, the Company's accrued interest and penalties increased by \$0.8 million. The timing and resolution of income tax examinations is uncertain, and the amounts ultimately paid, if any, upon resolution of issues raised by the taxing authorities may differ from the amounts accrued for each year. Although we do not expect that our balance of gross unrecognized tax benefits will change materially in the next 12 months, given the uncertainty in the development of ongoing income tax examinations, we are unable to estimate the full range of possible adjustments to this balance.

The Company is routinely subject to various federal, state and foreign audits by taxing authorities. The Company believes that adequate amounts have been provided for any adjustments that may result from these examinations.

The following table summarizes the Company's major tax jurisdictions and the tax years that remain subject to examination by such jurisdictions as of July 1, 2023:

<u>Tax Jurisdictions</u>	<u>Tax Years</u>
United States ⁽¹⁾	2005 and onward
Canada	2022 and onward
China	2018 and onward
France	2020 and onward
Germany	2018 and onward
Korea	2019 and onward
United Kingdom	2020 and onward

(1) Although the Company is generally subject to a three-year statute of limitations in the U.S., tax authorities maintain the ability to adjust tax attribute carryforwards generated in earlier years.

Note 15. Stockholders' Equity

Repurchase of Common Stock

In September 2022 the Board of Directors authorized a new stock repurchase plan ("2022 Repurchase Plan") of up to \$300 million effective October 1, 2022 which will remain in effect until the amount authorized has been fully repurchased or until suspension or termination of the program. Under the 2022 Repurchase Plan, the Company is authorized to repurchase shares through a variety of methods, including open market purchases, privately-negotiated transactions or otherwise in accordance with applicable federal securities laws, including through Rule 10b5-1 trading plans. The timing of repurchases under the plan will depend upon business and financial market conditions.

The 2022 Repurchase Plan replaces the \$200 million stock repurchase plan that the Board previously authorized in September 2019 ("2019 Repurchase Plan") and expired on September 30, 2022, as well as the stock repurchase plan that the Board of Directors authorized in September 2021 ("2021 Repurchase Plan") used during fiscal 2022 for the purpose of repurchasing the Company's common stock issued in connection with the exchange transactions with certain holders of its Senior Convertible Notes (refer to Senior Convertible Notes Settlement section of "Note 11. Debt" for more details).

During fiscal 2023, the Company repurchased 1.3 million shares of its common stock for \$18.7 million under the 2019 Repurchase Plan. During fiscal 2023, the Company repurchased 6.0 million shares of its common stock for \$65.2 million under the 2022 Repurchase Plan. As of July 1, 2023, the Company had remaining authorization of \$234.8 million for future share repurchases under the 2022 Repurchase Plan.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes share repurchase activity related to the Company's stock repurchase program (in millions, except average price per share amounts):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Total number of shares repurchased	7.3	14.8	3.0
Average price per share	\$ 11.49	\$ 15.91	\$ 14.21
Total purchase price	\$ 83.9	\$ 235.5	\$ 42.6
Remaining authorization at end of period	\$ 234.8	\$ 67.3	\$ 112.9

The total purchase price of these repurchases was reflected as a decrease to common stock based on the stated par value per share with the remainder charged to accumulated deficit. All common shares repurchased during fiscal 2023, 2022 and 2021 have been canceled and retired.

On August 16, 2022, the Inflation Reduction Act of 2022 (IRA) was enacted into law. The Company evaluated the provisions of the new legislation, which included an excise tax on share repurchases. The IRA was effective as of January 1, 2023 and repurchase activity after that date resulted in an accrual of \$0.3 million recorded in Other current liabilities on the Consolidated Balance Sheets.

Preferred Stock

The Company's Board of Directors has authority to issue up to 1,000,000 shares of undesignated preferred stock and to determine the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any wholly unissued shares of undesignated preferred stock and to fix the number of shares constituting any series and the designation of such series, without the consent of the Company's stockholders. The preferred stock could be issued with voting, liquidation, dividend and other rights superior to those of the holders of common stock. Subsequent issuance of any preferred stock by the Company's Board of Directors, under some circumstances, could have the effect of delaying, deferring or preventing a change in control.

Note 16. Stock-Based Compensation

Stock-Based Benefit Plans

Stock Option Plans

The Company's Amended and Restated 2003 Plan provides for the granting of stock options, stock appreciation rights (SARs), dividend equivalent rights, restricted stocks, restricted stock units, performance units and performance shares, the vesting of which may be time-based or upon satisfaction of performance criteria or other conditions.

As of July 1, 2023, the Company had 8.7 million shares subject to (i) Full Value Awards (defined below) issued and outstanding under the Amended and Restated 2003 Plan and (ii) stock options grant made in connection with the new CEO appointment in fiscal 2016. The exercise price for stock options is equal to the fair value of the underlying stock at the date of grant. The Company issues new shares of common stock upon exercise of stock options.

As of July 1, 2023, 7.5 million shares of common stock, primarily under Amended and Restated 2003 Plan, were available for grant.

Employee Stock Purchase Plans

In June 1998, the Company adopted the ESPP, which became effective August 1, 1998 and provides eligible employees with the opportunity to acquire an ownership interest in the Company through periodic payroll deductions and provides a discounted purchase price as well as a look-back period. The ESPP is structured as a qualified employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986. As of July 1, 2023, 1.5 million shares remained available for issuance. The ESPP as amended provides for a 15% discount with a look-back period of six months.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Full Value Awards

The Company's stock-based compensation includes a combination of time-based RSUs and performance-based MSUs and PSUs. RSUs are granted without an exercise price and are converted to shares immediately upon vesting. When converted into shares upon vesting, shares equivalent in value to the minimum withholding taxes liability on the vested shares are withheld by the Company for the payment of such taxes. For performance-based awards, shares attained over target upon vesting are reflected as awards granted during the period.

Time-based RSU awards will generally vest in annual installments over a period of three to four years subject to the employees' continuing service to the Company. The Company's performance-based MSU and PSU awards may include performance conditions, market conditions, time-based service conditions or a combination thereof and are generally expected to vest over one to four years. In addition, the actual number of shares awarded upon vesting of performance-based grants may vary from the target shares depending upon the achievement of the relevant performance or market-based conditions.

Stock-Based Compensation

The impact on the Company's results of operations of recording stock-based compensation expense by function for fiscal 2023, 2022 and 2021 was as follows (*in millions*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Cost of revenue	\$ 4.8	\$ 5.2	\$ 4.8
Research and development	8.6	8.6	8.9
Selling, general and administrative	37.8	38.5	34.6
Total stock-based compensation expense	<u>\$ 51.2</u>	<u>\$ 52.3</u>	<u>\$ 48.3</u>

Approximately \$1.2 million of stock-based compensation expense was capitalized to inventory at July 1, 2023 and July 2, 2022.

Stock Option Activity

There has been no activity for stock-based compensation expense related to stock options during the fiscal years ended July 1, 2023, July 2, 2022, and July 3, 2021. The following table summarizes outstanding and exercisable options as of July 1, 2023 all of which have been fully amortized and recognized since before June 29, 2019.

Exercise Price	Options Outstanding				Options Exercisable			
	Number of Shares	Weighted Average Remaining Contractual Term (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (millions)	Number of Shares	Weighted Average Remaining Contractual Term (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (millions)
\$5.95	1,180,257	0.62	\$ 5.95	\$ 6.3	1,180,257	0.62	\$ 5.95	\$ 6.3

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on the Company's closing stock price of \$11.33 as of July 1, 2023, which would have been received had the options been exercised as of that date. The total number of in-the-money options exercisable as of July 1, 2023 was 1.2 million.

Employee Stock Purchase Plan Activity

The expense related to the ESPP is recorded on a straight-line basis over the relevant subscription period. During fiscal 2023, the Company issued shares of 435,195 and 292,910 on January 31, 2023 and July 31, 2022, respectively, as part of the ESPP. As of July 1, 2023, there was \$0.2 million of unrecognized stock-based compensation cost related to the ESPP that remains to be amortized. The cost will be recognized in the first quarter of fiscal 2024.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Full Value Awards Activity

A summary of the status of the Company's non-vested Full Value Awards as of July 1, 2023 and changes during the same period is presented below (*amount in millions, except per share amounts*):

	Full Value Awards			Weighted-average Grant-dated Fair Value
	Performance Shares ⁽¹⁾	Non-Performance Shares	Total Number of Shares	
Non-vested June 27, 2020	1.0	5.1	6.1	\$ 12.97
Awards granted	1.3	3.3	4.6	\$ 14.15
Awards vested	(0.6)	(3.1)	(3.7)	\$ 12.58
Awards forfeited	(0.2)	(0.5)	(0.7)	\$ 13.83
Non-vested July 3, 2021	1.5	4.8	6.3	\$ 13.98
Awards granted	0.4	2.4	2.8	\$ 16.95
Awards vested	(0.4)	(2.2)	(2.6)	\$ 13.38
Awards forfeited	(0.1)	(0.2)	(0.3)	\$ 14.64
Non-vested July 2, 2022	1.4	4.8	6.2	\$ 15.55
Awards granted	0.9	3.1	4.0	\$ 14.35
Awards vested	(0.6)	(1.8)	(2.4)	\$ 15.23
Awards forfeited	—	(0.3)	(0.3)	\$ 14.78
Non-vested July 1, 2023	1.7	5.8	7.5	\$ 15.06

(1) Performance Shares refer to the Company's MSU and PSU awards, where the actual number of shares awarded upon vesting may be higher or lower than the target amount depending on the achievement of the relevant market conditions and performance goal achievement. The majority of MSUs vest in equal annual installments over three to four years based on the attainment of certain total shareholder performance measures and the employee's continued service through the vest date. The aggregate grant-date fair value of MSUs granted during fiscal 2023, 2022 and 2021 was estimated to be \$11.4 million, \$7.9 million and \$15.6 million, respectively, and was calculated using a Monte Carlo simulation. The fair value of PSU awards granted in fiscal 2021 was \$2.0 million. The Company did not grant any PSU awards in fiscal 2023 and 2022. PSU awards vest based on the attainment of certain performance measures and the employee's continued service through the vest date.

As of July 1, 2023, \$60.1 million of unrecognized stock-based compensation cost related to Full Value Awards remains to be amortized. That cost is expected to be recognized over the remaining amortization period of 1.6 years.

Valuation Assumptions

The Company estimates the fair value of time-based RSU awards based on the closing market price of the Company's common stock on the date of grant. In the case of PSUs that are performance-based awards without a market condition, the Company will estimate the fair value of the awards using a probability weighted model. In the case of MSUs or PSUs, that are performance-based awards and include a market condition, the Company will estimate the fair value of the awards using a combination of the closing market price of the Company's common stock on the grant date and the Monte Carlo simulation model. The weighted-average assumptions used to measure fair value of performance-based awards with a market condition were as follows:

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Volatility of common stock	31.2 %	33.8 %	38.5 %
Average volatility of peer companies	62.1 %	58.7 %	65.7 %
Average correlation coefficient of peer companies	0.3111	0.3442	0.3653
Risk-free interest rate	3.4 %	0.2 %	0.3 %

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company did not issue stock option grants during the fiscal years ended July 1, 2023, July 2, 2022 and July 3, 2021. The Company estimates the fair value ESPP purchase rights using a BSM valuation model. The fair value is estimated on the date of grant using the BSM option valuation model with the following weighted-average assumptions:

	Employee Stock Purchase Plans		
	July 1, 2023	July 2, 2022	July 3, 2021
Expected term (in years)	0.5	0.5	0.5
Expected volatility	37.2 %	24.3 %	44.9 %
Risk-free interest rate	3.8 %	0.3 %	0.1 %

Expected Term: The Company's expected term for stock options was calculated utilizing the simplified method in accordance with the authoritative guidance. The Company used the simplified method as the Company does not have sufficient historical share option exercise data due to the limited number of shares granted as well as changes in the Company's business following the separation from Lumentum, rendering existing historical experience less reliable in formulating expectations for current grants. The Company's purchase right period is six months under the ESPP.

Expected Volatility: The expected volatility for stock options was based on the historical volatility of the Company's common stock and its peers. The expected volatility for ESPP purchase rights was based on the historical volatility of its stock price with a similar expected term.

Risk-Free Interest Rate: The Company bases the risk-free interest rate used in the BSM valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Expected Dividend: The BSM valuation model calls for a single expected dividend yield as an input. The Company has not paid and does not anticipate paying any dividends in the near future.

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Employee Pension and Other Benefit Plans

Employee 401(k) Plans

The Company sponsors the Viavi Solutions 401(k) Plan (the 401(k) Plan), a defined contribution plan under ERISA, which provides retirement benefits for its eligible employees through tax deferred salary deductions. The 401(k) Plan allows employees to contribute up to 50% of their annual compensation, with contributions limited to \$22,500 in calendar year 2023 as set by the Internal Revenue Service.

For all eligible employees, the Company offers a 401(k) Plan that provides a 100% match of employees' contributions up to the first 3% of annual compensation and 50% match on the next 2% of compensation. All matching contributions are made in cash and vest immediately. The Company's matching contributions to the 401(k) Plan were \$5.4 million, \$5.1 million and \$4.7 million in fiscal 2023, 2022 and 2021, respectively.

Employee Defined Benefit Plans

The Company is responsible for a non-pension post-retirement benefit obligation assumed from a past acquisition, which is closed to new participants. As of July 1, 2023 and July 2, 2022, the liability balances related to the non-pension post-retirement benefit plan were \$0.4 million. The liability balances were included in Other non-current liabilities on the Consolidated Balance Sheets.

The Company sponsors significant qualified and non-qualified pension plans for certain past and present employees in the U.K. and Germany including the plan assumed in a prior acquisition. Most of these pension plans have been closed to new participants and no additional service costs are being accrued, except for certain plans in Germany assumed in connection with an acquisition during fiscal 2010. Benefits are generally based upon years of service and compensation or stated amounts for each year of service. As of July 1, 2023, the U.K. plan was fully funded while the other plans were unfunded. The Company's policy for funded plans is to make contributions equal to or greater than the requirements prescribed by law or regulation. For unfunded plans, the Company pays the post-retirement benefits when due. Future estimated benefit payments are summarized under the *Future Benefit Payments*' section below. No other required contributions are expected in fiscal 2024, but the Company, at its discretion, can make contributions to one or more of the defined benefit plans.

The Company accounts for its obligations under these pension plans in accordance with the authoritative guidance which requires the Company to record its obligation to the participants, as well as the corresponding net periodic cost. The Company determines its obligation to the participants and its net periodic cost principally using actuarial valuations provided by third-party actuaries. The obligation the Company records on its Consolidated Balance Sheets is reflective of the total PBO and the fair value of plan assets.

The following table presents the components of the net periodic benefit cost for the pension and benefits plans (in millions):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Service cost	\$ —	\$ 0.2	\$ 0.2
Interest cost	2.7	1.6	1.5
Expected return on plan assets	(1.7)	(1.7)	(1.7)
Recognized net actuarial (gains) losses	(0.1)	2.9	3.1
Net periodic benefit cost	<u>\$ 0.9</u>	<u>\$ 3.0</u>	<u>\$ 3.1</u>

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's accumulated other comprehensive (loss) income includes unrealized net actuarial (gains)/losses. The amount of unrealized net actuarial (gain)/loss expected to be recognized in net periodic benefit cost during fiscal 2024 is \$0.1 million. The changes in the benefit obligations and plan assets of the pension and benefits plans were (*in millions*):

	Pension Benefit Plans	
	July 1, 2023	July 2, 2022
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 95.5	\$ 140.5
Service cost	—	0.2
Interest cost	2.7	1.6
Actuarial gains	(4.2)	(25.7)
Benefits paid	(5.6)	(6.3)
Foreign exchange impact	(2.3)	(14.8)
Benefit obligation at end of year	<u>\$ 86.1</u>	<u>\$ 95.5</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 29.3	\$ 36.2
Actual return on plan assets	0.2	(3.0)
Employer contributions	5.6	6.7
Benefits paid	(5.6)	(6.3)
Foreign exchange impact	1.6	(4.3)
Fair value of plan assets at end of year	<u>31.1</u>	<u>29.3</u>
Funded status	(55.0)	(66.2)
Accumulated benefit obligation	<u>\$ 86.1</u>	<u>\$ 95.5</u>

	Pension Benefit Plans	
	July 1, 2023	July 2, 2022
Amount recognized on the Consolidated Balance Sheets at end of year:		
Non-current assets	\$ 5.6	\$ —
Current liabilities	7.8	7.0
Non-current liabilities	52.8	59.2
Other changes in plan assets and benefit obligations recognized in other comprehensive (loss) income:		
Net actuarial gain	\$ 2.0	\$ 13.9
Amortization of accumulated net actuarial (gains) losses	(0.1)	2.9
Total recognized in other comprehensive income (loss)	<u>\$ 1.9</u>	<u>\$ 16.8</u>

During fiscal 2023, the Company (amounts represented as £ and \$ denote GBP and USD, respectively) contributed £1.0 million or approximately \$1.2 million, while in fiscal 2022, the Company contributed £1.0 million or approximately \$1.3 million to its U.K. pension plan. These contributions allowed the Company to comply with regulatory funding requirements.

Assumptions

Underlying both the calculation of the PBO and net periodic cost are actuarial valuations. These valuations use participant-specific information such as salary, age, years of service, and assumptions about interest rates, compensation increases and other factors. At a minimum, the Company evaluates these assumptions annually and makes changes as necessary.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The discount rate reflects the estimated rate at which the pension benefits could be effectively settled. In developing the discount rate, the Company considered the yield available on an appropriate AA corporate bond index, adjusted to reflect the term of the scheme's liabilities as well as a yield curve model developed by the Company's actuaries.

The expected return on assets was estimated by using the weighted average of the real expected long-term return (net of inflation) on the relevant classes of assets based on the target asset mix and adding the chosen inflation assumption.

The following table summarizes the weighted average assumptions used to determine net periodic cost and benefit obligation for the Company's U.K. and German pension plans:

	Pension Benefit Plans		
	July 1, 2023	July 2, 2022	July 3, 2021
Used to determine net period cost at end of year:			
Discount rate	4.1 %	3.2 %	1.2 %
Expected long-term return on plan assets	5.9 %	6.2 %	5.4 %
Rate of pension increase	2.5 %	2.2 %	2.2 %
Used to determine benefit obligation at end of year:			
Discount rate	4.1 %	3.2 %	1.2 %
Rate of pension increase	2.5 %	2.2 %	2.3 %

Investment Policies and Strategies

The Company's investment objectives for its funded pension plan are to ensure that there are sufficient assets available to pay out members' benefits as and when they arise and that, should the plan be discontinued at any point in time, there would be sufficient assets to meet the discontinuance liabilities.

To achieve these objectives, the trustee of the U.K. pension plan is responsible for regularly monitoring the funding position and managing the risk by investing in assets expected to outperform the increase in value of the liabilities in the long term and by investing in a diversified portfolio of assets in order to minimize volatility in the funding position. The trustee invests in a range of frequently traded funds (pooled funds) rather than direct holdings in individual securities to maintain liquidity, achieve diversification and reduce the potential for risk concentration. The funded plan assets are managed by professional third-party investment managers.

Fair Value Measurement of Plan Assets

The following table sets forth the plan assets at fair value and the percentage of assets allocations as of July 1, 2023 (in millions, except percentage data):

	Target Allocation	Total	Percentage of Plan Assets	Fair value as of July 1, 2023	
				Level 1	Level 2
Assets:					
Global equity	40 %	\$ 10.5	33.8 %	\$ —	\$ 10.5
Fixed income	40 %	10.0	32.1 %	—	10.0
Other	20 %	7.9	25.4 %	—	7.9
Cash		2.7	8.7 %	2.7	—
Total assets		<u>\$ 31.1</u>	<u>100.0 %</u>	<u>\$ 2.7</u>	<u>\$ 28.4</u>

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the plan's assets at fair value and the percentage of assets allocations as of July 2, 2022 (in millions, except percentage data):

	Target Allocation	Total	Percentage of Plan Assets	Fair value as of July 2, 2022	
				Level 1	Level 2
Assets:					
Global equity	40 %	\$ 10.3	35.2 %	\$ —	\$ 10.3
Fixed income	40 %	10.4	35.5 %	—	10.4
Other	20 %	6.4	21.8 %	—	6.4
Cash		2.2	7.5 %	2.2	—
Total assets		<u>\$ 29.3</u>	<u>100.0 %</u>	<u>\$ 2.2</u>	<u>\$ 27.1</u>

The Company's pension assets consist of multiple institutional funds (pension funds) of which the fair values are based on the quoted prices of the underlying funds. Pension funds are classified as Level 2 assets since such funds are not directly traded in active markets.

Global equity consists of several index funds that invest primarily in U.K. equities and other overseas equities.

Fixed income consists of several funds that invest primarily in index-linked Gilts (over 5 year), sterling-denominated investment grade corporate bonds, and overseas government bonds.

Other consists of several funds that primarily invest in global equities, bonds, private equity, global real estate and infrastructure funds.

Future Benefit Payments

The following table reflects the expected benefit payments to defined benefit pension plan participants. These payments have been estimated based on the same assumptions used to measure the Company's PBO at fiscal year end and include benefits attributable to estimated future compensation increases (in millions).

	Pension Benefit Plans
2024	\$ 9.2
2025	6.1
2026	6.3
2027	6.2
2028	5.6
2029-2033	25.4

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18. Commitments and Contingencies

Royalty payments

The Company is obligated to make future minimum royalty payments of \$1.5 million measured as of July 1, 2023 for the use of certain licensed technologies. Future minimum payments are expected to be paid through the third quarter of fiscal 2026, as follows (*in millions*):

	Royalty Payments	
2024	\$	0.8
2025		0.4
2026		0.3
Total	\$	<u>1.5</u>

Purchase Obligations

Purchase obligations of \$124.0 million as of July 1, 2023, represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the option to cancel, reschedule and adjust the requirements based on the Company's business needs prior to the delivery of goods or performance of services. Obligations to purchase inventory and other commitments are generally expected to be fulfilled within one year.

The Company depends on a limited number of contract manufacturers, subcontractors, and suppliers for raw materials, packages and standard components. The Company generally purchases these single or limited source products through standard purchase orders or one-year supply agreements and has no significant long-term guaranteed supply agreements with such vendors. While the Company seeks to maintain a sufficient safety stock of such products and maintains on-going communications with its suppliers to guard against interruptions or cessation of supply, the Company's business and results of operations could be adversely affected by a stoppage or delay of supply, substitution of more expensive or less reliable products, receipt of defective parts or contaminated materials, increases in the price of such supplies, or the Company's inability to obtain reduced pricing from its suppliers in response to competitive pressures.

Financing Obligations

On August 21, 2007, the Company entered into a sale and lease-back of certain buildings and land in Santa Rosa, California (the Santa Rosa Transactions), under which we leased back certain buildings. The net cash proceeds received from the transaction were \$32.2 million. The lease terms range from a one-year lease with multiple renewal options to a ten-year lease with two five-year renewal options. These buildings did not qualify for sale and lease back accounting due to various forms of continuing involvement and, as a result, they were accounted for as financing transactions.

In August 2012 and May 2019, the Company entered into two lease amendments to extend the term of the lease to August 31, 2032 with a ten-year renewal option. In the first quarter of fiscal 2020, the Company reassessed whether a sale would have occurred on the date of adoption of ASC 842 and, at which time, concluded that the buildings did not qualify for sale and lease back accounting in accordance with ASC 842. As a result, they were continuously accounted for as financing transactions.

As of July 1, 2023, \$0.2 million was included in Other current liabilities, and \$15.8 million was included in Other non-current liabilities. As of July 2, 2022, \$0.1 million was included in Other current liabilities, and \$16.0 million was included in Other non-current liabilities.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of July 1, 2023, future minimum annual lease payments of Santa Rosa's non-cancelable leaseback agreements were as follows (*in millions*):

2024	\$	3.0
2025		3.1
2026		3.1
2027		3.2
2028		2.7
Thereafter		10.9
Total minimum leaseback payments	<u>\$</u>	<u>26.0</u>

Guarantees

Authoritative guidance requires upon issuance of a guarantee the guarantor must recognize a liability for the fair value of the obligation that it assumes under the guarantee. In addition, disclosures about the guarantees that an entity has issued, including a tabular reconciliation of the changes of the entity's product warranty liabilities, are required.

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily relate to: (i) divestiture agreements, under which the Company may provide customary indemnifications to purchasers of the Company's businesses or assets; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on the Consolidated Balance Sheets as of July 1, 2023 and July 2, 2022.

Outstanding Standby Letters of Credit and Performance Bonds

As of July 1, 2023, the Company had standby letters of credit of \$8.4 million, and other claims of \$0.7 million collateralized by restricted cash.

Product Warranties

The Company provides reserves for the estimated costs of product warranties at the time revenue is recognized. Prior to January 1, 2023 the Company offered its customers warranties up to three years for most of its products. On January 1, 2023, the Company changed the standard warranty for most of its products to one year. The Company estimates the costs of its warranty obligations based on its historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the changes in the Company's warranty reserve during fiscal 2023 and 2022 (*in millions*):

	Year Ended	
	July 1, 2023	July 2, 2022
Balance as of beginning of period	\$ 10.6	\$ 9.7
Provision for warranty	1.6	5.2
Utilization of reserve	(1.2)	(2.4)
Adjustments related to pre-existing warranties (including changes in estimates)	(2.0)	(1.9)
Balance as of end of period	<u>\$ 9.0</u>	<u>\$ 10.6</u>

Legal Proceedings

In June 2016, the Company received a court decision regarding the validity of an amendment to a pension deed of trust related to one of its foreign subsidiaries which the Company contends contained an error requiring the Company to increase the pension plan's benefit. The Company had subsequently further amended the deed to rectify the error. The court ruled that the amendment increasing the pension plan benefit was valid until the subsequent amendment. The Company estimated the liability to range from (amounts represented as £ denote GBP) £5.7 million to £8.4 million. The Company determined the likelihood of loss to be probable and accrued £5.7 million as of July 2, 2016 in accordance with authoritative guidance on contingencies.

The Company pursued an appeal of the court decision. In March 2018, the appellate court affirmed the decision of the lower court. The Company pursued a motion for summary judgement on the deed of rectification claim and continues to pursue a claim against the U.K. law firm responsible for the error. As of July 2, 2022, the related accrued pension liability of £5.4 million or \$6.5 million was included in pension and post-employment benefits within Other non-current liabilities on the Consolidated Balance Sheets.

In September 2022, the Company received a favorable court decision which removed completely and definitively the obligation to fund the increased pension benefit with retrospective effect to 1999. As a result of the judgment, and in accordance with authoritative guidance on contingencies, the Company reversed the liability and recorded a gain (reduction to SG&A expense in the Consolidated Statements of Operations) of £5.7 million or \$6.7 million during fiscal 2023.

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business. While management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on its financial position, results of operations or statement of cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. Were an unfavorable final outcome to occur, there exists the possibility of a material adverse impact on the Company's financial position, results of operations or cash flows for the period in which the effect becomes reasonably estimable.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 19. Operating Segments and Geographic Information

The Company evaluates its reportable segments in accordance with the authoritative guidance on segment reporting. The Company's Chief Executive Officer, as the Company's Chief Operating Decision Maker (CODM), uses operating segment financial information to evaluate segment performance and to allocate resources.

The Company's reportable segments are:

(i) Network Enablement:

NE provides an integrated portfolio of testing solutions that access the network to perform build-out and maintenance tasks. These solutions include instruments, software and services to design, build, turn-up, certify, troubleshoot and optimize networks. The Company also offers a range of product support and professional services such as repair, calibration, software support and technical assistance for its products. NE's avionics products provide test and measuring solutions for aviation, aerospace, government, defense, communications and public safety.

(ii) Service Enablement:

SE provides embedded systems and enterprise performance management solutions that give global CSPs, enterprises and cloud operators visibility into network, service and application data. These solutions—including instruments, microprobes and software—monitor, collect and analyze network data to reveal the actual customer experience and to identify opportunities for new revenue streams and network optimization.

(iii) Optical Security and Performance Products:

OSP leverages its core optical coating technologies and volume manufacturing capability to design, manufacture, and sell technologies for the anti-counterfeiting, consumer electronics, industrial, government and automotive markets.

Segment Reporting

The CODM manages the Company in two broad business categories: NSE and OSP. The CODM evaluates segment performance of the NSE business based on the combined segment gross and operating margins. Operating expenses associated with the NSE business are not allocated to the individual segments within NSE, as they are managed centrally at the business unit level. The CODM evaluates segment performance of the OSP business based on segment operating margin. The Company allocates corporate-level operating expenses to its segment results, except for certain non-core operating and non-operating activities as discussed below.

The Company does not allocate stock-based compensation, acquisition-related charges, amortization of intangibles, restructuring and related charges, impairment of goodwill, non-operating income and expenses, changes in fair value of contingent consideration liabilities, or other charges unrelated to core operating performance to its segments because management does not include this information in its measurement of the performance of the operating segments. These items are presented as "Other Items" in the table below. Additionally, the Company does not specifically identify and allocate all assets by operating segment.

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information on the Company's reportable segments is as follows (*in millions*):

Year Ended July 1, 2023						
Network and Service Enablement						
	Network Enablement	Service Enablement	Network and Service Enablement	Optical Security and Performance Products	Other Items	Consolidated GAAP Measures
Product revenue	\$ 583.9	\$ 47.4	\$ 631.3	\$ 304.8	\$ —	\$ 936.1
Service revenue	113.6	56.3	169.9	0.1	—	170.0
Net revenue	\$ 697.5	\$ 103.7	\$ 801.2	\$ 304.9	\$ —	\$ 1,106.1
Gross profit	440.1	70.1	510.2	158.6	(30.0)	638.8
Gross margin	63.1 %	67.6 %	63.7 %	52.0 %		57.8 %
Operating income			61.2	111.3	(90.1)	82.4
Operating margin			7.6 %	36.5 %		7.4 %

Year Ended July 2, 2022						
Network and Service Enablement						
	Network Enablement	Service Enablement	Network and Service Enablement	Optical Security and Performance Products	Other Items	Consolidated GAAP Measures
Product revenue	\$ 739.7	\$ 53.0	\$ 792.7	\$ 342.8	\$ —	\$ 1,135.5
Service revenue	106.1	50.3	156.4	0.5	—	156.9
Net revenue	\$ 845.8	\$ 103.3	\$ 949.1	\$ 343.3	\$ —	\$ 1,292.4
Gross profit	543.6	71.5	615.1	193.6	(35.2)	773.5
Gross margin	64.3 %	69.2 %	64.8 %	56.4 %		59.8 %
Operating income			147.8	139.0	(101.8)	185.0
Operating margin			15.6 %	40.5 %		14.3 %

Year Ended July 3, 2021						
Network and Service Enablement						
	Network Enablement	Service Enablement	Network and Service Enablement	Optical Security and Performance Products	Other Items	Consolidated GAAP Measures
Product revenue	\$ 650.5	\$ 40.6	\$ 691.1	\$ 360.3	\$ —	\$ 1,051.4
Service revenue	96.1	50.7	146.8	0.7	—	147.5
Net revenue	\$ 746.6	\$ 91.3	\$ 837.9	\$ 361.0	\$ —	\$ 1,198.9
Gross profit	474.2	59.9	534.1	218.1	(37.8)	714.4
Gross margin	63.5 %	65.6 %	63.7 %	60.4 %		59.6 %
Operating income			92.2	161.3	(111.3)	142.2
Operating margin			11.0 %	44.7 %		11.9 %

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
Corporate reconciling items impacting gross profit:			
Total segment gross profit	\$ 668.8	\$ 808.7	\$ 752.2
Stock-based compensation	(4.8)	(5.2)	(4.8)
Amortization of intangibles	(24.6)	(30.0)	(33.2)
Other (charges) benefits unrelated to core operating performance ⁽¹⁾	(0.6)	—	0.2
GAAP gross profit	<u>\$ 638.8</u>	<u>\$ 773.5</u>	<u>\$ 714.4</u>
Corporate reconciling items impacting operating income:			
Total segment operating income	\$ 172.5	\$ 286.8	\$ 253.5
Stock-based compensation	(51.2)	(52.3)	(48.3)
Amortization of intangibles	(33.3)	(39.7)	(66.5)
Change in fair value of contingent liability	4.5	(0.3)	5.3
Other benefits (charges) unrelated to core operating performance ⁽¹⁾	2.0	(9.6)	(3.4)
Restructuring and related (charges) benefits	(12.1)	0.1	1.6
GAAP operating income from continuing operations	<u>\$ 82.4</u>	<u>\$ 185.0</u>	<u>\$ 142.2</u>

(1) During the years ended July 1, 2023, July 2, 2022, and July 3, 2021 other benefits (charges) unrelated to core operating performance primarily consisted of certain acquisition and integration related charges, transformational initiatives such as site consolidations, reorganization, accretion of debt discount, intangible impairment and loss on disposal of long-lived assets.

The Company operates primarily in three geographic regions: Americas, Asia-Pacific, and Europe, Middle East and Africa (EMEA). Net revenue is assigned to the geographic region and country where the Company's product is initially shipped. For example, certain customers may request shipment of product to a contract manufacturer in one country, which may differ from the location of their end customers. The following table presents net revenue by the three geographic regions the Company operates in and net revenue from countries that exceeded 10% of the Company's total net revenue (*in millions*):

	Years Ended								
	July 1, 2023			July 2, 2022			July 3, 2021		
	Product Revenue	Service Revenue	Total	Product Revenue	Service Revenue	Total	Product Revenue	Service Revenue	Total
Americas:									
United States	\$ 303.5	\$ 59.4	\$ 362.9	\$ 332.5	\$ 56.4	\$ 388.9	\$ 275.8	\$ 54.2	\$ 330.0
Other Americas	60.3	14.9	75.2	82.2	14.6	96.8	72.7	12.9	85.6
Total Americas	<u>\$ 363.8</u>	<u>\$ 74.3</u>	<u>\$ 438.1</u>	<u>\$ 414.7</u>	<u>\$ 71.0</u>	<u>\$ 485.7</u>	<u>\$ 348.5</u>	<u>\$ 67.1</u>	<u>\$ 415.6</u>
Asia-Pacific:									
Greater China	\$ 203.5	\$ 7.4	\$ 210.9	\$ 247.5	\$ 8.9	\$ 256.4	\$ 265.8	\$ 11.2	\$ 277.0
Other Asia	140.2	26.4	166.6	185.2	20.1	205.3	118.5	15.0	133.5
Total Asia-Pacific	<u>\$ 343.7</u>	<u>\$ 33.8</u>	<u>\$ 377.5</u>	<u>\$ 432.7</u>	<u>\$ 29.0</u>	<u>\$ 461.7</u>	<u>\$ 384.3</u>	<u>\$ 26.2</u>	<u>\$ 410.5</u>
EMEA:	<u>\$ 228.6</u>	<u>\$ 61.9</u>	<u>\$ 290.5</u>	<u>\$ 288.1</u>	<u>\$ 56.9</u>	<u>\$ 345.0</u>	<u>\$ 318.6</u>	<u>\$ 54.2</u>	<u>\$ 372.8</u>
Total net revenue	<u>\$ 936.1</u>	<u>\$ 170.0</u>	<u>\$1,106.1</u>	<u>\$1,135.5</u>	<u>\$ 156.9</u>	<u>\$1,292.4</u>	<u>\$1,051.4</u>	<u>\$ 147.5</u>	<u>\$1,198.9</u>

VIAVI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SICPA Holding SA Company (SICPA), a customer of the Company's OSP segment, generated more than 10% of VIAVI net revenue from continuing operations during fiscal 2023, 2022 and 2021 as summarized below (*in millions*):

	Years Ended		
	July 1, 2023	July 2, 2022	July 3, 2021
SICPA - OSP customer	\$ 157.7	\$ 178.4	\$ 193.9

Property, plant and equipment, net was identified based on the operations in the corresponding geographic areas (*in millions*):

	Years Ended	
	July 1, 2023	July 2, 2022
United States	\$ 166.9	\$ 148.3
Other Americas	1.3	1.8
China	33.6	39.7
Other Asia-Pacific	4.0	4.5
United Kingdom	24.6	25.7
Other EMEA	12.6	8.9
Total property, plant and equipment, net	<u>\$ 243.0</u>	<u>\$ 228.9</u>

VIAMI SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 20. Selected Quarterly Financial Information (unaudited)

The following table presents the Company's selected quarterly financial information from the Consolidated Statements of Operations for fiscal 2023 and 2022 (*in millions, except per share data*):

	July 1, 2023	April 1, 2023	December 31, 2022	October 1, 2022	July 2, 2022	April 2, 2022	January 1, 2022	October 2, 2021
Net revenue	\$ 263.6	\$ 247.8	\$ 284.5	\$ 310.2	\$ 335.3	\$ 315.5	\$ 314.8	\$ 326.8
Gross profit	146.0	141.0	167.0	184.8	201.1	186.9	190.5	195.0
Net (loss) income	<u>\$ (0.1)</u>	<u>\$ (15.4)</u>	<u>\$ 8.4</u>	<u>\$ 32.6</u>	<u>\$ 16.5</u>	<u>\$ 19.2</u>	<u>\$ 34.6</u>	<u>\$ (54.8)</u>
Net (loss) income per share - basic:								
Net (loss) income ⁽¹⁾	<u>\$ —</u>	<u>\$ (0.07)</u>	<u>\$ 0.04</u>	<u>\$ 0.14</u>	<u>\$ 0.07</u>	<u>\$ 0.08</u>	<u>\$ 0.15</u>	<u>\$ (0.24)</u>
Net (loss) income per share - diluted:								
Net (loss) income ⁽¹⁾	<u>\$ —</u>	<u>\$ (0.07)</u>	<u>\$ 0.04</u>	<u>\$ 0.14</u>	<u>\$ 0.07</u>	<u>\$ 0.08</u>	<u>\$ 0.14</u>	<u>\$ (0.24)</u>
Shares used in per-share calculation:								
Basic	222.2	224.1	225.9	226.3	227.2	229.2	236.0	231.1
Diluted	222.2	224.1	227.1	230.4	231.3	236.8	242.3	231.1

(1) Net (loss) income per share is computed independently for each of the fiscal quarters presented. Therefore, the sum of the quarterly basic and diluted Net (loss) income per share amounts may not equal the annual basic and diluted Net (loss) income per share amount for the full fiscal years.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROL AND PROCEDURES

The SEC defines the term "disclosure controls and procedures" to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. "Disclosure controls and procedures" include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our management (with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act). Based on such evaluation, our CEO and our CFO have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of July 1, 2023.

(b) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act). Our management, including our CEO and CFO, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its evaluation under the framework in the *Internal Control-Integrated Framework* (2013), our management concluded that our internal control over financial reporting was effective as of July 1, 2023.

The effectiveness of the Company's internal control over financial reporting as of July 1, 2023 has been audited by our independent registered public accounting firm PricewaterhouseCoopers LLP, as stated in their report which appears in this Annual Report on Form 10-K under Item 8 "Financial Statements and Supplementary Information."

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the quarter ended July 1, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(d) LIMITATIONS ON EFFECTIVENESS OF CONTROLS

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, 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. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Accordingly, our disclosure controls and procedures and our internal controls provide reasonable assurance of achieving their objectives.

ITEM 9B. OTHER INFORMATION

None of VIAVI's directors or Section 16 officers adopted, modified or terminated a trading arrangement intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or a "non-Rule" 10b5-1 trading arrangement, as those terms are defined in Regulation S-K, Item 408, during the fiscal quarter ended July 1, 2023.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the Company's directors required by this Item is incorporated by reference to the sections entitled "Proposal One—Elections of Directors" and "Corporate Governance" in the Company's Definitive Proxy Statement in connection with the 2023 Annual Meeting of Stockholders (the Proxy Statement), which will be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended July 1, 2023. Information required by Item 405 of Regulation S-K is incorporated by reference to the section entitled "Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Information regarding the Company's executive officers and Audit Committee of the Company's Board of Directors required by this Item is incorporated by reference to the section entitled "Corporate Governance" in the Proxy Statement.

With regard to the information required by this item regarding the compliance with Section 16(a) of the Exchange Act, we will provide disclosure of delinquent Section 16(a) reports, if any, in our Proxy Statement, and such disclosure, if any, is incorporated herein by reference.

The Company has adopted the "VIAMI Code of Business Conduct" as its code of ethics, which is applicable to all employees, officers and directors of the Company. The full text of the VIAMI Code of Business Conduct is available under Corporate Governance Information which can be found under the Investors tab on the Company's website at www.viamisolutions.com.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Business Conduct by posting such information on our investor relations website under the heading "Governance-Governance Documents" at <https://investor.viamisolutions.com/governance/governance-overview/default.aspx>.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to the sections entitled “Executive Compensation,” “Corporate Governance - Director Compensation,” “Corporate Governance - Compensation Program Risk Assessment,” “Corporate Governance—Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the section entitled “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

Information regarding the Company’s stockholder approved and non-approved equity compensation plans is incorporated by reference to the section entitled “Equity Compensation Plans” in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference to the sections entitled “Corporate Governance - Certain Relationships and Related Person Transactions,” and “Corporate Governance - Director Independence” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is incorporated by reference to the section entitled “Audit and Non-Audit Fees” in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following items are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements:

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID 238)	49
Consolidated Statements of Operations — Years Ended July 1, 2023, July 2, 2022, and July 3, 2021	52
Consolidated Statements of Comprehensive (Loss) Income — Years Ended July 1, 2023, July 2, 2022, and July 3, 2021	53
Consolidated Balance Sheets — July 1, 2023 and July 2, 2022	54
Consolidated Statements of Cash Flows — Years Ended July 1, 2023, July 2, 2022, and July 3, 2021	55
Consolidated Statements of Stockholders' Equity — Years Ended July 1, 2023, July 2, 2022, and July 3, 2021	56
Notes to Consolidated Financial Statements	57

(2) Financial Statement Schedules: All financial statement schedules have been omitted because the required information is not present in amounts sufficient to require submission of the schedule, not applicable, or because the required information is included in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits:

See Item 15(b)

(b) Exhibits:

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the Securities and Exchange Commission.

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed	Furnished
		Form	Exhibit	Filing Date	Herewith	Not Filed
2.1	Separation and Distribution Agreement by and between JDS Uniphase Corporation, Lumentum Holdings Inc. and Lumentum Operations LLC	8-K	2.3	8/5/2015		
3.1	Fourth Restated Certificate of Incorporation	8-K	3.1	11/20/2018		
3.2	Amended and Restated Bylaws of Viavi Solutions Inc.	10-Q	3.1	2/7/2018		
4.1	Indenture, dated as of March 3, 2017 between Viavi Solutions Inc. and Wells Fargo Bank, National Association as Trustee	8-K	4.1	3/6/2017		
4.2	Form of 1.00% Senior Convertible Notes due 2024	8-K	4.2 (Incl. in 4.1)	3/6/2017		
4.3	Indenture, dated as of March 6, 2023, between Viavi Solutions Inc. and U.S. Bank Trust Company, National Association, as Trustee.	8-K	4.1	3/7/2023		
4.4	Form of 1.625% Senior Convertible Notes due 2026	8-K	4.2 (Incl. in 4.1)	3/7/2023		
4.5	Indenture, dated as of September 29, 2021 between Viavi Solutions Inc., the Guarantors named party thereto, and Wells Fargo Bank, National Association as Trustee	8-K	4.1	9/29/2021		
4.6	Form of 3.750% Senior Notes due 2029	8-K	4.2 (Incl. in 4.1)	9/29/2021		
4.7	Description of Securities	10-K	4.6	8/24/2020		

10.1+	Employment Agreement between Oleg Khaykin and Viavi Solutions Inc. effective as of February 3, 2016	8-K	10.1	2/2/2016	
10.2+	Employment Agreement between Henk Derksen and Viavi Solutions Inc., effective as of March 15, 2021	8-K	10.1	5/7/2021	
10.3+	Amended and Restated 1998 Employee Stock Purchase Plan	10-K	10.3	8/27/2019	
10.4+	Form of Indemnification Agreement	8-K	10.9	4/20/2015	
10.5+	Restated 2003 Equity Incentive Plan	10-Q	10.1	2/6/2020	
10.6+	2003 Equity Incentive Plan Form of Performance Unit Award Agreement	8-K	10.3	6/20/2020	
10.7	Tax Matters Agreement by and between JDS Uniphase Corporation and Lumentum Holdings Inc.	8-K	10.1	8/5/2015	
10.8+	Viavi Solutions Inc., Change of Control Benefits Plan, (Amended and Restated effective June 16, 2020)	8-K	10.1	6/22/2020	
10.9+	Form of Option Grant Notice and Option Agreement, by and between the Registrant and Oleg Khaykin	S-8	99.1	2/11/2016	
10.10+	2003 Equity Incentive Plan Form of Restricted Stock Unit Award Agreement	8-K	10.2	6/22/2020	
10.11	Credit Agreement, dated December 30, 2021, among Viavi Solutions Inc. and certain of its subsidiaries, the lenders party thereto and Wells Fargo Bank, National Association, as agent	8-K	10.1	1/6/2022	
10-12+	Viavi Solutions Inc. Section 16 Officer Incentive Plan	10-Q	10.1	5/3/2023	
21.1	Subsidiaries of Viavi Solutions Inc.				X
23.1	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP)				X
24.1	Power of Attorney (included on the signature page to the Report)				
31.1	Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibits 101)				X

+Indicates management contract or compensation plan, contract or arrangement.

ITEM 16. 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 17, 2023

VIAVI SOLUTIONS INC.

By: /s/ HENK DERKSEN

Name: HENK DERKSEN

Title: Executive Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ OLEG KHAYKIN</u> Oleg Khaykin	President and Chief Executive Officer (Principal Executive Officer)	<u>August 17, 2023</u>
<u>/s/ HENK DERKSEN</u> Henk Derksen	Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)	<u>August 17, 2023</u>
<u>/s/ RICHARD BELLUZZO</u> Richard Belluzzo	Chairman	<u>August 17, 2023</u>
<u>/s/ KEITH BARNES</u> Keith Barnes	Director	<u>August 17, 2023</u>
<u>/s/ LAURA BLACK</u> Laura Black	Director	<u>August 17, 2023</u>
<u>/s/ TOR BRAHAM</u> Tor Braham	Director	<u>August 17, 2023</u>
<u>/s/ DONALD COLVIN</u> Donald Colvin	Director	<u>August 17, 2023</u>
<u>/s/ DOUGLAS GILSTRAP</u> Douglas Gilstrap	Director	<u>August 17, 2023</u>
<u>/s/ MASOOD JABBAR</u> Masood Jabbar	Director	<u>August 17, 2023</u>
<u>/s/ JOANNE SOLOMON</u> Joanne Solomon	Director	<u>August 17, 2023</u>