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

FORM 10-Q

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

For the quarterly period ended March 31, 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: 0-23599

MERCURY SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Massachusetts	**04-2741391**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
50 MINUTEMAN ROAD ANDOVER MA	**01810**
(Address of principal executive offices)	**(Zip Code)**

978-256-1300
(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 $0.01 per share	MRCY	Nasdaq Global Select Market

---

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 x 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 x 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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	x	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 any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Shares of Common Stock outstanding as of April 30, 2023: 58,190,096 shares

MERCURY SYSTEMS, INC.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCURY SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2023	July 1, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 64,441	$ 65,654
Accounts receivable, net of allowance for credit losses of $1,090 and $2,074 at March 31, 2023 and July 1, 2022, respectively	125,562	144,494
Unbilled receivables and costs in excess of billings	376,722	303,356
Inventory	342,777	270,339
Prepaid income taxes	3,588	7,503
Prepaid expenses and other current assets	24,785	23,906
Total current assets	937,875	815,252
Property and equipment, net	119,482	127,191
Goodwill	938,093	937,880
Intangible assets, net	310,647	351,538
Operating lease right-of-use assets, net	63,960	66,366
Other non-current assets	13,816	6,188
Total assets	$ 2,383,873	$ 2,304,415
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$ 111,246	$ 98,673
Accrued expenses	27,508	34,954
Accrued compensation	26,704	44,813
Deferred revenues and customer advances	54,700	15,487
Total current liabilities	220,158	193,927
Deferred income taxes	6,451	32,398
Income taxes payable	4,901	9,112
Long-term debt	511,500	451,500
Operating lease liabilities	68,099	69,888
Other non-current liabilities	11,865	10,405
Total liabilities	822,974	767,230
Commitments and contingencies (Note N)		
Shareholders’ equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value; 85,000,000 shares authorized; 56,673,677 and 55,679,747 shares issued and outstanding at March 31, 2023 and July 1, 2022, respectively	567	557
Additional paid-in capital	1,187,335	1,145,323
Retained earnings	365,675	385,774
Accumulated other comprehensive income	7,322	5,531
Total shareholders’ equity	1,560,899	1,537,185
Total liabilities and shareholders’ equity	$ 2,383,873	$ 2,304,415

The accompanying notes are an integral part of the consolidated financial statements.

MERCURY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)
(Unaudited)

	Third Quarters Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Net revenues	$ 263,479	$ 253,075	$ 720,646	$ 698,468
Cost of revenues	173,190	153,321	471,302	423,083
Gross margin	90,289	99,754	249,344	275,385
Operating expenses:				
Selling, general and administrative	44,626	39,261	128,626	113,027
Research and development	26,516	25,387	81,188	82,604
Amortization of intangible assets	12,809	16,077	40,919	45,813
Restructuring and other charges	2,778	6,348	6,355	22,424
Acquisition costs and other related expenses	1,606	2,726	5,043	7,524
Total operating expenses	88,335	89,799	262,131	271,392
Income (loss) from operations	1,954	9,955	(12,787)	3,993
Interest income	80	110	329	124
Interest expense	(6,711)	(1,664)	(17,848)	(3,353)
Other expense, net	(613)	(2,160)	(3,412)	(4,898)
(Loss) income before income taxes	(5,290)	6,241	(33,718)	(4,134)
Income tax (benefit) provision	(10,446)	2,102	(13,619)	1,506
Net income (loss)	$ 5,156	$ 4,139	$ (20,099)	$ (5,640)
Basic net earnings (loss) per share	$ 0.09	$ 0.07	$ (0.36)	$ (0.10)
Diluted net earnings (loss) per share	$ 0.09	$ 0.07	$ (0.36)	$ (0.10)
Weighted-average shares outstanding:				
Basic	56,511	55,590	56,310	55,495
Diluted	56,896	56,027	56,310	55,495
Comprehensive income (loss):				
Net income (loss)	$ 5,156	$ 4,139	$ (20,099)	$ (5,640)
Change in fair value of derivative instruments, net of tax	(2,687)	—	1,275	—
Foreign currency translation adjustments	(20)	232	374	207
Pension benefit plan, net of tax	46	48	142	144
Total other comprehensive (loss) income, net of tax	(2,661)	280	1,791	351
Total comprehensive income (loss)	$ 2,495	$ 4,419	$ (18,308)	$ (5,289)

The accompanying notes are an integral part of the consolidated financial statements.

MERCURY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	For the Third Quarter Ended March 31, 2023					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance at December 30, 2022	56,365	$ 564	$ 1,173,026	$ 360,519	$ 9,983	$ 1,544,092
Issuance of common stock under employee stock incentive plans	225	2	(2)	—	—	—
Issuance of common stock under defined contribution plan	84	1	4,189	—	—	4,190
Stock-based compensation	—	—	10,122	—	—	10,122
Net income	—	—	—	5,156	—	5,156
Other comprehensive loss	—	—	—	—	(2,661)	(2,661)
Balance at March 31, 2023	56,674	$ 567	$ 1,187,335	$ 365,675	$ 7,322	$ 1,560,899

	For the Third Quarter Ended April 1, 2022					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	Shares	Amount				
Balance at December 31, 2021	55,583	$ 556	$ 1,122,113	$ 364,720	$ (268)	$ 1,487,121
Issuance of common stock under employee stock incentive plans	16	—	—	—	—	—
Retirement of common stock	(4)	—	(217)	—	—	(217)
Stock-based compensation	—	—	9,121	—	—	9,121
Net income	—	—	—	4,139	—	4,139
Other comprehensive income	—	—	—	—	280	280
Balance at April 1, 2022	55,595	$ 556	$ 1,131,017	$ 368,859	$ 12	$ 1,500,444

	For the Nine Months Ended March 31, 2023					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance at July 1, 2022	55,680	$ 557	$ 1,145,323	$ 385,774	$ 5,531	$ 1,537,185
Issuance of common stock under employee stock incentive plans	702	7	(7)	—	—	—
Issuance of common stock under employee stock purchase plan	57	1	2,392	—	—	2,393
Issuance of common stock under defined contribution plan	236	2	11,580	—	—	11,582
Retirement of common stock	(1)	—	(63)	—	—	(63)
Stock-based compensation	—	—	28,110	—	—	28,110
Net loss	—	—	—	(20,099)	—	(20,099)
Other comprehensive income	—	—	—	—	1,791	1,791
Balance at March 31, 2023	56,674	$ 567	$ 1,187,335	$ 365,675	$ 7,322	$ 1,560,899

	For the Nine Months Ended April 1, 2022					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	Shares	Amount				
Balance at July 2, 2021	55,241	$ 552	$ 1,109,434	$ 374,499	$ (339)	$ 1,484,146
Issuance of common stock under employee stock incentive plans	445	4	(4)	—	—	—
Issuance of common stock under employee stock purchase plan	54	1	2,515	—	—	2,516
Retirement of common stock	(145)	(1)	(7,715)	—	—	(7,716)
Stock-based compensation	—	—	26,787	—	—	26,787
Net loss	—	—	—	(5,640)	—	(5,640)
Other comprehensive income	—	—	—	—	351	351
Balance at April 1, 2022	55,595	$ 556	$ 1,131,017	$ 368,859	$ 12	$ 1,500,444

The accompanying notes are an integral part of the consolidated financial statements.

MERCURY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	March 31, 2023	April 1, 2022
Cash flows from operating activities:		
Net loss	$ (20,099)	$ (5,640)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	74,827	70,021
Stock-based compensation expense	27,446	26,262
Share-based matching contributions on defined contribution plan	9,715	—
Benefit for deferred income taxes	(34,644)	(5,241)
Other non-cash items	721	(1,092)
Cash settlement for termination of interest rate swap	5,995	—
Changes in operating assets and liabilities, net of effects of businesses acquired:		
Accounts receivable, unbilled receivables, and costs in excess of billings	(53,705)	(65,203)
Inventory	(70,029)	(28,386)
Prepaid income taxes	3,866	(7,710)
Prepaid expenses and other current assets	(1,154)	(10,528)
Other non-current assets	2,752	3,211
Accounts payable, accrued expenses, and accrued compensation	(11,765)	45,572
Deferred revenues and customer advances	39,051	(14,591)
Income taxes payable	(4,229)	3
Other non-current liabilities	(2,612)	(6,112)
Net cash (used in) provided by operating activities	(33,864)	566
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	—	(243,255)
Purchases of property and equipment	(29,950)	(19,476)
Other investing activities	150	(3,214)
Net cash used in investing activities	(29,800)	(265,945)
Cash flows from financing activities:		
Proceeds from employee stock plans	2,393	2,516
Borrowings under credit facilities	100,000	251,500
Payments under credit facilities	(40,000)	—
Purchase and retirement of common stock	(63)	(7,716)
Payments of deferred financing and offering costs	—	(2,662)
Net cash provided by financing activities	62,330	243,638
Effect of exchange rate changes on cash and cash equivalents	121	(404)
Net decrease in cash and cash equivalents	(1,213)	(22,145)
Cash and cash equivalents at beginning of period	65,654	113,839
Cash and cash equivalents at end of period	$ 64,441	$ 91,694
Cash paid during the period for:		
Interest	$ 18,751	$ 2,424
Income taxes	$ 21,928	$ 15,023
Supplemental disclosures—non-cash activities:		
Non-cash investing activity: Purchases of property and equipment incurred but not yet paid	$ 5,105	$ 4,615

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except per share data)
(Unaudited)

A. Description of Business

Mercury Systems, Inc. is a technology company that delivers commercial innovation to rapidly transform the global aerospace and defense industry. Headquartered in Andover, Massachusetts, the Company's end-to-end processing platform enables a broad range of aerospace and defense programs, optimized for mission success in some of the most challenging and demanding environments. Mercury's Processing Platform includes signal solutions, display, software applications, networking, storage and secure processing. The Company's innovative solutions are mission-ready, trusted and secure, software-defined and open and modular (the Company's differentiators), to meet customers' most-pressing high-tech needs, including those specific to the aerospace and defense community.

Investors and others should note that the Company announces material financial information using its website (www.mrcy.com), Securities and Exchange Commission ("SEC") filings, press releases, public conference calls, webcasts, and social media, including Twitter (twitter.com/mrcy and twitter.com/mrcy_CEO) and LinkedIn (www.linkedin.com/company/mercury-systems). Therefore, the Company encourages investors and others interested in Mercury to review the information the Company posts on the social media and other communication channels listed on its website.

B. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company in accordance with Generally Accepted Accounting Principles ("GAAP") in the United States of America for interim financial information and with the instructions to the Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted pursuant to those rules and regulations; however, in the opinion of management the financial information reflects all adjustments, consisting of adjustments of a normal recurring nature, necessary for fair presentation. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the fiscal year ended July 1, 2022 which are contained in the Company's Annual Report on Form 10-K filed with the SEC on August 16, 2022. The results for the third quarter and nine months ended March 31, 2023 are not necessarily indicative of the results to be expected for the full fiscal year.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

All references to the third quarter of fiscal 2023 are to the quarter ended March 31, 2023. There were 13 weeks during the third quarters ended March 31, 2023 and April 1, 2022, respectively. There were 39 weeks during the nine months ended March 31, 2023 and April 1, 2022, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Business Combinations

The Company utilizes the acquisition method of accounting under ASC 805, *Business Combinations*, ("ASC 805"), for all transactions and events in which it obtains control over one or more other businesses, to recognize the fair value of all assets and liabilities acquired, even if less than one hundred percent ownership is acquired, and in establishing the acquisition date fair value as the measurement date for all assets and liabilities assumed. The Company also utilizes ASC 805 for the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in business combinations.

FOREIGN CURRENCY

Local currencies are the functional currency for the Company’s subsidiaries in Switzerland, the United Kingdom, France, Spain and Canada. The accounts of foreign subsidiaries are translated using exchange rates in effect at period-end for assets and liabilities and at average exchange rates during the period for results of operations. The related translation adjustments are reported in Accumulated other comprehensive income (loss) (“AOCI”) in shareholders’ equity. Gains (losses) resulting from non-U.S. currency transactions are included in Other expense, net in the Consolidated Statements of Operations and Comprehensive Income (Loss) and were immaterial for all periods presented.

ACCOUNTS RECEIVABLE

Accounts receivable, net, represents amounts that have been billed and are currently due from customers. The Company maintains an allowance for credit losses to provide for the estimated amount of receivables that will not be collected. The Company provides credit to customers in the normal course of business. The Company performs ongoing credit evaluations of its customers’ financial condition and limits the amount of credit extended as necessary. The allowance is based upon an assessment of the customer's credit worthiness, reasonable forecasts about the future, history with the customer, and the age of the receivable balance. The Company typically invoices a customer upon shipment of the product (or completion of a service) for contracts where revenue is recognized at a point in time. For contracts where revenue is recognized over time, the invoicing events are typically based on specified performance obligation deliverables or milestone events, or quantifiable measures of performance.

ACCOUNTS RECEIVABLES FACTORING

On September 27, 2022, the Company executed an uncommitted receivables purchase agreement (“RPA”) with Bank of the West, as purchaser, pursuant to which the Company may offer to sell certain customer receivables, subject to the terms and conditions of the RPA. The RPA is an uncommitted arrangement such that the Company is not obligated to sell any receivables and Bank of the West has no obligation to purchase any receivables from the Company. Pursuant to the RPA, Bank of the West may purchase certain of the Company's customer receivables at a discounted rate, subject to a limit that as of any date, the total amount of purchased receivables held by Bank of the West, less the amount of all collections received on such receivables, may not exceed $20,000. The RPA has an indefinite term and the agreement remains in effect until it is terminated by either party. Factoring under the RPA Agreement is treated as a true sale of accounts receivable by the Company. The Company has continued involvement in servicing accounts receivable under the Purchase Agreement, but no retained interests related to the factored accounts receivable. On March 14, 2023, the Company amended the RPA to increase the capacity from $20,000 to $30,600.

Proceeds for amounts factored by the Company are recorded as an increase to cash and a reduction to accounts receivable outstanding in the Consolidated Balance Sheets. Cash Flows attributable to factoring are reflected as cash flows from operating activities in the Company's Consolidated Statements of Cash Flows. Factoring fees are included as selling, general and administrative expenses in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company had $24,502 factored in accounts receivables as of March 31, 2023 and incurred factoring fees of approximately $179 and $317 for the third quarter and nine months ended March 31, 2023, respectively. The Company did not factor any accounts receivable or incur any factoring fees for the third quarter and nine months ended April 1, 2022.

DERIVATIVES

The Company records the fair value of its derivative financial instruments in its condensed consolidated financial statements in Other non-current assets, or Other non-current liabilities depending on their net position, regardless of the purpose or intent for holding the derivative contract. Changes in the fair value of the derivative financial instruments are either recognized periodically in earnings or in shareholders’ equity as a component of Other comprehensive income (“OCI”). Changes in the fair value of cash flow hedges that qualify for hedge accounting treatment are recorded in OCI and reclassified into earnings in the same line item on the Consolidated Statements of Operations and Comprehensive Income (Loss) as the impact of the hedged transaction when the underlying contract matures and, for interest rate exposure derivatives, over the term of the corresponding debt instrument. Changes in the fair values of derivatives not qualifying for hedge accounting are reported in earnings as they occur. All derivatives for the Company qualified for hedge accounting as of March 31, 2023.

REVENUE RECOGNITION

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, (“ASC 606”). Revenues are derived from the sales of products that are grouped into one of the following three categories: (i) components; (ii) modules and sub-assemblies; and (iii) integrated subsystems. The Company also generates revenues from the performance of services, including systems engineering support, consulting, maintenance and other support, testing and installation. Each promised good or service within a contract is accounted for separately under the guidance of ASC 606 if they are distinct.

Promised goods or services not meeting the criteria for being a distinct performance obligation are bundled into a single performance obligation with other goods or services that together meet the criteria for being distinct. The appropriate allocation of the transaction price and recognition of revenue is then determined for the bundled performance obligation.

Revenue recognized at a point in time generally relates to contracts that include a combination of components, modules and sub-assemblies, integrated subsystems and related system integration or other services. Contracts with distinct performance obligations recognized at a point in time, with or without an allocation of the transaction price, totaled 48% and 43% of revenues for the third quarter and nine months ended March 31, 2023, respectively. Contracts with distinct performance obligations recognized at a point in time, with or without an allocation of the transaction price, totaled 45% and 48% for the third quarter and nine months ended April 1, 2022, respectively.

The Company also engages in over time contracts for development, production and service activities and recognizes revenue for performance obligations over time. These over time contracts involve the design, development, manufacture, or modification of complex modules and sub-assemblies or integrated subsystems and related services. Over time contracts include both fixed-price and cost reimbursable contracts. The Company's cost reimbursable contracts typically include cost-plus fixed fee and time and material contracts.

Total revenue recognized over time was 52% and 57% of total revenues for the third quarters and nine months ended March 31, 2023, respectively. Total revenue recognized over time was 55% and 52% of total revenues for the third quarter and nine months ended April 1, 2022, respectively.

The Company generally does not provide its customers with rights of product return other than those related to assurance warranty provisions that permit repair or replacement of defective goods generally over a period of 12 to 36 months. The Company accrues for anticipated warranty costs upon product shipment. The Company does not consider activities related to such assurance warranties, if any, to be a separate performance obligation. The Company does offer separately priced extended warranties which generally range from 12 to 36 months that are treated as separate performance obligations. The transaction price allocated to extended warranties is recognized over time in proportion to the costs expected to be incurred in satisfying the obligations under the contract.

The Company's contracts generally do not include significant financing components. The Company's over time contracts may include milestone payments, which align the payment schedule with the progress towards completion on the performance obligation. Otherwise, the Company's contracts are predicated on payment upon completion of the performance obligation. On certain contracts, the Company may be entitled to receive an advance payment, which is not considered a significant financing component because most contracts have a duration of approximately two years on average and it is used to facilitate inventory demands at the onset of a contract and to safeguard the Company from the failure of the other party to abide by some or all of their obligations under the contract.

All revenues are reported net of government assessed taxes (e.g., sales taxes or value-added taxes). Refer to Note M for disaggregation of revenue for the period.

CONTRACT BALANCES

Contract balances result from the timing of revenue recognized, billings and cash collections resulting in the generation of contract assets and liabilities. Contract assets represent revenue recognized in excess of amounts invoiced to the customer and the right to payment is not subject to the passage of time. Instead, while the Company has an enforceable right to payment as progress is made over performance obligations, billings to customers are generally predicated on (i) completion of defined milestones, (ii) monthly costs incurred or (iii) final delivery of goods or services. Contract assets are presented as Unbilled receivables and costs in excess of billings on the Company's Consolidated Balance Sheets. Contract liabilities consist of deferred product revenue, billings in excess of revenues, deferred service revenue and customer advances. Deferred product revenue represents amounts that have been invoiced to customers, but are not yet recognizable as revenue because the Company has not satisfied its performance obligations under the contract. Billings in excess of revenues represents milestone billing contracts where the billings of the contract exceed recognized revenues. Deferred service revenue primarily represents amounts invoiced to customers for annual maintenance contracts or extended warranty contracts, which are recognized over time in proportion to the costs expected to be incurred in satisfying the obligations under the contract. Customer advances represent deposits received from customers on an order. Contract liabilities are included in deferred revenue as well as Other non-current liabilities on the Company's Consolidated Balance Sheets. Contract balances are reported in a net position on a contract-by-contract basis.

The contract asset balances were $376,722 and $303,356 as of March 31, 2023 and July 1, 2022, respectively. The contract asset balance increased due to growth in revenue recognized under over time contracts, as well as the timing of program milestone billings during the third quarter ended March 31, 2023. The contract liability balances were $55,276 and $15,966 as of March 31, 2023 and July 1, 2022, respectively. The increase was due to a higher volume of advance milestone billing events as well as timing of revenue conversion across multiple programs.

Revenue recognized for the third quarter and nine months ended March 31, 2023 that was included in the contract liability balance at July 1, 2022 was $2,681 and $10,418, respectively. Revenue recognized for the third quarter and nine months ended April 1, 2022 that was included in the contract liability balance at July 2, 2021 was $6,263 and $24,551, respectively.

Remaining Performance Obligations

The Company includes in its computation of remaining performance obligations customer orders for which it has accepted signed sales orders. The definition of remaining performance obligations excludes contracts with original expected durations of less than one year, as well as those contracts that provide the customer with the right to cancel or terminate the order with no substantial penalty, even if the Company’s historical experience indicates the likelihood of cancellation or termination is remote. As of March 31, 2023, the aggregate amount of the transaction price allocated to remaining performance obligations was $505,791. The Company expects to recognize approximately 63% of its remaining performance obligations as revenue in the next 12 months and the balance thereafter.

Long-Lived Assets

Long-lived assets primarily include property and equipment, intangible assets and right-of-use ("ROU") assets. The Company regularly evaluates its long-lived assets for events and circumstances that indicate a potential impairment in accordance with ASC 360, *Property, Plant and Equipment* (“ASC 360”). The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows of the asset as compared to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value. As part of the Company's assessment over the future benefit of certain long-lived assets in the second quarter ended December 30, 2022, the Company identified an immaterial correction of an error in the useful lives assigned to certain leasehold improvements. This resulted in a cumulative adjustment to depreciation expense of approximately $3,100, which was recorded during the second quarter ended December 30, 2022.

Weighted-Average Shares

Weighted-average shares were calculated as follows:

	Third Quarters Ended		Nine Months Ended	
	March 31, 2023	**April 1, 2022**	**March 31, 2023**	**April 1, 2022**
Basic weighted-average shares outstanding	56,511	55,590	56,310	55,495
Effect of dilutive equity instruments	385	437	—	—
Diluted weighted-average shares outstanding	56,896	56,027	56,310	55,495

Equity instruments to purchase 792 and 1,873 shares of common stock were not included in the calculation of diluted net earnings per share for the third quarter and nine months ended March 31, 2023, respectively, because the equity instruments were anti-dilutive. Equity instruments to purchase 246 and 386 shares of common stock were not included in the calculation of diluted net earnings per share for the third quarter and nine months ended April 1, 2022, respectively, because the equity instruments were anti-dilutive.

Recently Issued Accounting Pronouncements

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, an amendment of the FASB Accounting Standards Codification. The amendments in this ASU address diversity and inconsistency related to the recognition and measurement of contract assets and contract liabilities acquired in a business combination and require that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. Under current U.S. GAAP, an acquirer generally recognizes assets and liabilities assumed in a business combination, including contract assets and liabilities arising from revenue contracts with customers, at fair value on the acquisition date. ASU No. 2021-08 will result in the acquirer recording acquired contract assets and liabilities on the same basis that would have been recorded by the acquiree before the acquisition under Topic 606. This ASU is effective for fiscal years beginning after December 15, 2022, with early adoption permitted, including adoption in an interim period. The impact to the Company's consolidated financial statements and related disclosures of the adoption of the amendments in this update will depend on the magnitude of any customer contracts assumed in a business combination in fiscal 2023 and beyond.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective July 2, 2022, the Company adopted ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, an amendment of the FASB Accounting Standards Codification. The amendments in this ASU provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this ASU are elective and apply to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This adoption did not have a material impact to the Company's consolidated financial statements or related disclosures.

Effective July 2, 2022, the Company adopted ASU No. 2020-06, *Debt - Debt with conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, an amendment of the FASB Accounting Standards Codification. The amendments in this ASU simplify the accounting for convertible debt securities. This adoption did not have a material impact to the Company's consolidated financial statements or related disclosures.

Effective December 1, 2022, the Company adopted ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, an amendment of the FASB Accounting Standards Codification. The amendments in this ASU extend the sunset date under Topic 848 from December 31, 2022 to December 31, 2024 to align the temporary accounting relief guidance with the expected LIBOR cessation date of June 30, 2023. This adoption did not have a material impact to the Company's consolidated financial statements or related disclosures.

C. Acquisitions

ATLANTA MICRO ACQUISITION

On November 29, 2021, the Company acquired Atlanta Micro, Inc. (“Atlanta Micro”) for a purchase price of $90,000, prior to net working capital and net debt adjustments. Based in Norcross, Georgia, Atlanta Micro is a leading designer and manufacturer of high-performance RF modules and components, including advanced monolithic microwave integrated circuits (“MMICs”) which are critical for high-speed data acquisition applications including electronic warfare, radar and weapons. The Company funded the acquisition through the Company's existing revolving credit facility (the “Revolver”). On March 28, 2022, the Company and former owners of Atlanta Micro agreed to post closing adjustments totaling $58, which increased the Company's net purchase price.

The following table presents the net purchase price and the fair values of the assets and liabilities of Atlanta Micro:

	Amounts
Consideration transferred	
Cash paid at closing	$ 91,438
Working capital and net debt adjustment	(416)
Less cash acquired	(1,782)
Net purchase price	$ 89,240
Fair value of tangible assets acquired and liabilities assumed	
Cash	$ 1,782
Accounts receivable	1,568
Inventory	4,475
Fixed assets	434
Other current and non-current assets	2,079
Accounts payable	(529)
Accrued expenses	(845)
Other current and non-current liabilities	(11,174)
Fair value of net tangible assets acquired	(2,210)
Fair value of identifiable intangible assets	34,980
Goodwill	58,252
Fair value of net assets acquired	91,022
Less cash acquired	(1,782)
Net purchase price	$ 89,240

On November 29, 2022, the measurement period for Atlanta Micro expired. The identifiable intangible assets include customer relationships of $27,310 with a useful life of 20 years, completed technology of $7,260 with a useful life of 8 years and backlog of $410 with a useful life of two years.

The goodwill of $58,252 largely reflects the potential synergies and expansion of the Company’s offerings across product lines and markets complementary to the Company’s existing products and markets and is not deductible for tax purposes. The goodwill from this acquisition is reported in the Microelectronics reporting unit.

AVALEX ACQUISITION

On September 27, 2021, the Company signed a definitive agreement to acquire Avalex Technologies, LLC. (“Avalex”) for a purchase price of $155,000, prior to net working capital and net debt adjustments. On November 5, 2021, the transaction closed and the Company acquired Avalex. Based in Gulf Breeze, Florida, Avalex is a provider of mission-critical avionics, including rugged displays, integrated communications management systems, digital video recorders and warning systems. The Company funded the acquisition with the Revolver. On March 17, 2022, the Company and former owner of Avalex agreed to post closing adjustments totaling $151, which increased the Company's net purchase price.

The following table presents the net purchase price and the fair values of the assets and liabilities of Avalex:

		Amounts
Consideration transferred		
Cash paid at closing	$	157,367
Working capital and net debt adjustment		(1,034)
Less cash acquired		(2,188)
Net purchase price	$	154,145
Fair value of tangible assets acquired and liabilities assumed		
Cash	$	2,188
Accounts receivable		5,363
Inventory		7,141
Fixed assets		1,245
Other current and non-current assets		5,228
Accounts payable		(1,755)
Accrued expenses		(1,421)
Other current and non-current liabilities		(4,788)
Fair value of net tangible assets acquired		13,201
Fair value of identifiable intangible assets		61,360
Goodwill		81,772
Fair value of net assets acquired		156,333
Less cash acquired		(2,188)
Net purchase price	$	154,145

On November 5, 2022, the measurement period for Avalex expired. The identifiable intangible assets include customer relationships of $41,880 with a useful life of 9 years, completed technology of $14,430 with a useful life of 7 years and backlog of $5,050 with a useful life of one year.

The goodwill of $81,772 largely reflects the potential synergies and expansion of the Company’s offerings across product lines and markets complementary to the Company’s existing products and markets. The goodwill from this acquisition is reported in the Mission Systems reporting unit, formerly referred to as the Processing reporting unit. The Company is amortizing the amount over 15 years for tax purposes. As of March 31, 2023, the Company had $76,068 of goodwill deductible for tax purposes.

D. Fair Value of Financial Instruments

	Fair Value Measurements			
	March 31, 2023	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ 3,244	$ —	$ 3,244	$ —
Total	$ 3,244	$ —	$ 3,244	$ —

The carrying values of cash and cash equivalents, including money market funds, restricted cash, accounts receivable and payable, contract assets and liabilities and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The Company determined the carrying value of long-term debt approximated fair value due to variable interest rates charged on the borrowings, which reprice frequently. During the first quarter ended September 30, 2022, the Company entered into an interest rate hedging agreement (the "Swap"). Refer to Note O for further information regarding the Swap. The fair value of the Swap is estimated using a discounted cash flow analysis based on the contractual terms of the derivative, leveraging observable inputs other than quoted prices, such as interest rates. As of March 31, 2023, the fair value of the Swap was a liability of $3,244 and is included within Other non-current liabilities in the Company's Consolidated Balance Sheets.

E. Inventory

Inventory is stated at the lower of cost (first-in, first-out) or net realizable value, and consists of materials, labor and overhead. On a quarterly basis, the Company uses consistent methodologies to evaluate inventory for net realizable value. Once an item is written down, the value becomes the new inventory cost basis. The Company reduces the value of inventory for excess and obsolete inventory, consisting of on-hand inventory in excess of estimated usage. The excess and obsolete inventory evaluation is based upon assumptions about future demand, historical usage, product mix and possible alternative uses. Inventory was comprised of the following:

	As of	
	March 31, 2023	July 1, 2022
Raw materials	$ 235,668	$ 178,410
Work in process	83,305	64,287
Finished goods	23,804	27,642
Total	$ 342,777	$ 270,339

F. Goodwill

In accordance with FASB ASC 350, *Intangibles-Goodwill and Other* ("ASC 350"), the Company determines its reporting units based upon whether discrete financial information is available, if management regularly reviews the operating results of the component, the nature of the products offered to customers and the market characteristics of each reporting unit. A reporting unit is considered to be an operating segment or one level below an operating segment also known as a component. Component level financial information is reviewed by management across two divisions: Mission Systems and Microelectronics. Accordingly, these were determined to be the Company's reporting units.

The following table sets forth the changes in the carrying amount of goodwill for the nine months ended March 31, 2023:

	Total
Balance at July 1, 2022	$ 937,880
Goodwill adjustment for the Avalex acquisition	66
Goodwill adjustment for the Atlanta Micro acquisition	147
Balance at March 31, 2023	$ 938,093

The Company performs its annual goodwill impairment test in the fourth quarter of each fiscal year.

G. Restructuring

During the third quarter and nine months ended March 31, 2023, the Company incurred $2,778 and $6,355 of restructuring and other charges, respectively. The Company incurs restructuring and other charges in connection with management's decision to undertake certain actions to realign operating expenses through workforce reductions and the closure of certain Company facilities, businesses and product lines. The Company's adjustments reflected in restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post acquisition integration activities.

Consistent with the Company's definition of restructuring and other charges, 1MPACT is an organizational redesign program initiated on the heels of a series of acquisitions since 2014 rather than a single, discrete acquisition. Since the inception of 1MPACT, the Company has selectively engaged with leading consultants to accelerate solution design and implementation for the highest value workstreams. These costs are associated with this discrete transformation initiative and are non-routine and may not be indicative of ongoing results.

Restructuring and other charges for the third quarter ended March 31, 2023 primarily related to $1,977 of severance costs, 1MPACT related costs consisting of $786 of costs for facility optimization efforts, including $556 related to lease asset impairment, as well as $15 of third party consulting costs.

Restructuring and other charges for the nine months ended March 31, 2023 primarily related to $2,776 of severance costs, 1MPACT related costs consisting of $1,825 of costs for facility optimization efforts, including $1,339 related to lease asset impairment, as well as $1,754 of third party consulting costs.

All of the restructuring and other charges are classified as Operating expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss) and any remaining restructuring obligations are expected to be paid within the next twelve months. The restructuring liability is classified as Accrued expenses in the Consolidated Balance Sheets.

The following table presents the detail of charges included in the Company’s liability for restructuring and other charges:

	Severance & Related	Facilities & Other	Total
Balance at July 1, 2022	$ 4,722	$ —	$ 4,722
Restructuring charges	2,776	486	3,262
Cash paid	(5,312)	(448)	(5,760)
Balance at March 31, 2023	$ 2,186	$ 38	$ 2,224

H. Income Taxes

The Company recorded an income tax (benefit) provision of $(10,446) and $2,102 on a (loss) income before income taxes of $(5,290) and $6,241 for the third quarters ended March 31, 2023 and April 1, 2022, respectively. The Company recorded an income tax (benefit) provision of $(13,619) and $1,506 on a loss before income taxes of $33,718 and $4,134 for the nine months ended March 31, 2023 and April 1, 2022, respectively.

For the third quarter ended March 31, 2023, the Company calculated the U.S. income tax benefit using the discrete method which assumes the nine month period was the annual period as this was more appropriate given the facts and circumstances. The Company determined that the application of the estimated annual effective tax rate ("AETR") method generally required by ASC 740 is impractical given that normal deviations in the projected close to break-even pre-tax net income (loss) could result in a disproportionate and unreliable effective tax rate under the AETR method. The tax benefit for the third quarter ended March 31, 2023 also includes a true-up to the prior quarters due to the change in methodology.

During the third quarter ended March 31, 2023, the Company concluded its income tax audit with the Internal Revenue Service for fiscal years 2016 through 2018 and recognized a tax benefit of $1,335 related to a release of income tax reserves for unrecognized income tax benefits. During the nine months ended March 31, 2023, the Company recognized a tax benefit of $3,683 related to a release of income tax reserves for unrecognized income tax benefits due to the expiration of the statute of limitations.

During the nine months ended March 31, 2023 and April 1, 2022, the Company recognized a tax provision of $1,655 and $906 related to stock compensation shortfalls, respectively.

The effective tax rate for the third quarter and nine months ended March 31, 2023 and April 1, 2022 differed from the federal statutory rate primarily due to federal and state research and development credits, non-deductible compensation and state taxes. The effective tax rate for the third quarter and nine months ended March 31, 2023 also differed from the federal statutory rate due to the release of income tax reserves for unrecognized income tax benefits.

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 into law which contained provisions that include a 15% corporate minimum tax effective for taxable years beginning after December 31, 2022 and a 1% excise tax on certain stock buybacks after December 31, 2022. The Company expects the impact of this legislation to be immaterial.

Effective for tax years beginning after December 31, 2021, the Tax Cuts and Jobs Act of 2017 requires companies to capitalize and amortize domestic research and development expenditures over five years for tax purposes, and foreign research and development expenditures over fifteen years for tax purposes.

I. Debt

Revolving Credit Facility

On February 28, 2022, the Company amended the Revolver to increase and extend the borrowing capacity to a $1,100,000, 5-year revolving credit line, with the maturity extended to February 28, 2027. As of March 31, 2023, the Company's outstanding balance of unamortized deferred financing costs was $3,681, which is being amortized to Other expense, net in the Consolidated Statements of Operations and Comprehensive Income (Loss) on a straight line basis over the term of the Revolver.

As of March 31, 2023, the Company was in compliance with all covenants and conditions under the Revolver and there were outstanding borrowings of $511,500 against the Revolver, resulting in interest expense of $6,711 and $17,848 for the third quarter and nine months ended March 31, 2023. The Company had a total of approximately $1,000,000 of the Revolver available as of March 31, 2023, less outstanding borrowings of $511,500. There were outstanding letters of credit of $963 as of March 31, 2023.

J. Employee Benefit Plan

Pension Plan

The Company maintains a defined benefit pension plan (the "Plan") for its Swiss employees, which is administered by an independent pension fund. The Plan is mandated by Swiss law and meets the criteria for a defined benefit plan under ASC 715, *Compensation—Retirement Benefits* ("ASC 715"), because participants of the Plan are entitled to a defined rate of return on contributions made. The independent pension fund is a multi-employer plan with unrestricted joint liability for all participating companies for which the Plan's overfunding or underfunding is allocated to each participating company based on an allocation key determined by the Plan.

The Company recognizes a net asset or liability for the Plan equal to the difference between the projected benefit obligation of the Plan and the fair value of the Plan's assets as required by ASC 715. The funded status may vary from year to year due to changes in the fair value of the Plan's assets and variations on the underlying assumptions of the projected benefit obligation of the Plan. The Plan's funded status at March 31, 2023 was a net liability of $4,589, which is recorded in Other non-current liabilities on the Consolidated Balance Sheet. The Company recorded a net gain of $46 and $142 in AOCI during the third quarter and nine months ended March 31, 2023. The Company recorded a net gain of $48 and $144 in AOCI during the third quarter and nine months April 1, 2022. The Company recognized net periodic benefit costs of $230 and $671 associated with the Plan for the third quarter and nine months ended March 31, 2023, respectively. The Company recognized net periodic benefit costs of $267 and $805 associated with the Plan for the third quarter and nine months ended April 1, 2022, respectively. The Company's total expected employer contributions to the Plan during fiscal 2023 are $1,093.

401(k) Plan

The Company maintains a qualified 401(k) plan (the "401(k) Plan") for its U.S. employees. Effective in the first quarter of fiscal 2023, the Company increased the rate of its matching contributions from 3% to 6% of participants' eligible annual compensation and changed the form of these contributions from cash to Company stock. The Company may also make optional contributions to the plan for any plan year at its discretion. The Company had $1,868 of capitalized stock-based 401(k) matching compensation expense on the Consolidated Balance Sheet at March 31, 2023. Stock-based 401(k) matching compensation cost is measured based on the value of the matching amount and is recognized as expense as incurred. During the third quarter ended March 31, 2023, the Company recognized share-based matching contributions related to the 401(k) plan of $3,288 as compared to $2,145 of cash match during the third quarter ended April 1, 2022. During the nine months ended March 31, 2023, the Company recognized share-based matching contributions related to the 401(k) plan of $9,715 as compared to $5,966 of cash match during the nine months ended April 1, 2022.

K. Shareholders' Equity

STOCKHOLDER RIGHTS PLAN

On December 27, 2021, the Company's Board of Directors authorized and declared a dividend of one preferred share purchase right (a "Right"), payable on January 10, 2022, for each outstanding share of common stock par value $0.01 per share to the stockholders of record on that date. Each Right entitled the registered holder to purchase from the Company a unit of Series A Junior Preferred Stock, par value $0.01 per share, of the Company at a designated price per unit, subject to adjustment. The Rights initially trade with, and are inseparable from, the shares of common stock.

On June 24, 2022, the Company amended the Rights Agreement, dated as of December 27, 2021, to increase the ownership threshold for a person to be an "Acquiring Person" (as defined in the Rights Agreement) from 7.5% of common stock to 10% of common stock (10% of common stock to 20% of common stock in the case of a passive institutional investor).

Additional details about the Rights Agreement are contained in the Current Reports on Form 8-K filed by the Company with the SEC on December 29, 2021 and June 24, 2022.

On October 26, 2022 the Stockholder Rights Plan and the Rights thereunder expired.

L. Stock-Based Compensation

STOCK INCENTIVE PLANS

At March 31, 2023, the aggregate number of shares authorized for issuance under the Company's Amended and Restated 2018 Stock Incentive Plan (the "2018 Plan") is 7,862 shares, including 3,000 shares approved by the Company's shareholders on October 28, 2020 and 2,000 shares approved for future grant under the 2018 Plan by the Company's shareholders on October 26, 2022. The 2018 Plan shares available for issuance also include 948 shares rolled into the 2018 Plan that were available for future grant under the Company's 2005 Stock Incentive Plan, as amended and restated (the "2005 Plan"). The 2018 Plan replaced the 2005 Plan. The shares authorized for issuance under the 2018 Plan will continue to be increased by any future cancellations, forfeitures or terminations (other than by exercise) of awards under the 2005 Plan. The foregoing does not affect any outstanding awards under the 2005 Plan, which remain in full force and effect in accordance with their terms. The 2018 Plan provides for the grant of non-qualified and incentive stock options, restricted stock, stock appreciation rights and deferred stock awards to employees and non-employees. Stock options must be granted with an exercise price of not less than 100% of the fair value of the Company's common stock on the date of grant and the options generally have a term of seven years. There were 2,690 available shares for future grant under the 2018 Plan at March 31, 2023.

As part of the Company's ongoing annual equity grant program for employees, the Company grants performance-based restricted stock awards to certain executives and employees pursuant to the 2018 Plan. Performance awards vest based on the requisite service period subject to the achievement of specific financial performance targets. Based on the performance targets, some of these awards require graded vesting which results in more rapid expense recognition compared to traditional time-based vesting over the same vesting period. The Company monitors the probability of achieving the performance targets on a quarterly basis and may adjust periodic stock compensation expense accordingly based on its determination of the likelihood for reaching targets. The performance targets generally include the achievement of internal performance targets in relation to a peer group of companies.

EMPLOYEE STOCK PURCHASE PLAN

At March 31, 2023, the aggregate number of shares authorized for issuance under the Company's 1997 Employee Stock Purchase Plan, as amended and restated ("ESPP"), is 2,300 shares, including 500 shares approved by the Company's shareholders on October 28, 2020. Under the ESPP, rights are granted to purchase shares of common stock at 85% of the lesser of the market value of such shares at either the beginning or the end of each six-month offering period. The ESPP permits employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation as defined in the ESPP. There were 57 and 54 shares issued under the ESPP during the nine months ended March 31, 2023 and April 1, 2022, respectively. Shares available for future purchase under the ESPP totaled 256 at March 31, 2023.

STOCK AWARD ACTIVITY

The following table summarizes the status of the Company's non-vested restricted stock awards and deferred stock awards since July 1, 2022:

	Non-vested Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at July 1, 2022	2,305	$ 57.47
Granted	269	54.52
Vested	(702)	60.81
Forfeited	(214)	55.74
Outstanding at March 31, 2023	1,658	$ 55.08

STOCK-BASED COMPENSATION EXPENSE

The Company recognizes expense for its share-based payment plans in the Consolidated Statements of Operations and Comprehensive Income (Loss) in accordance with ASC 718, *Compensation - Stock Compensation* ("ASC 718"). The Company had $1,893 and $1,229 of capitalized stock-based compensation expense on the Consolidated Balance Sheets for the periods ended March 31, 2023 and July 1, 2022, respectively. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the service period, net of estimated forfeitures.

The following table presents share-based compensation expenses included in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss):

	Third Quarters Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Cost of revenues	$ 630	$ 467	$ 1,666	$ 1,348
Selling, general and administrative	7,577	6,845	20,732	20,438
Research and development	1,732	1,575	5,048	4,476
Stock-based compensation expense before tax	9,939	8,887	27,446	26,262
Income taxes	(2,684)	(2,399)	(7,410)	(7,091)
Stock-based compensation expense, net of income taxes	$ 7,255	$ 6,488	$ 20,036	$ 19,171

M. Operating Segment, Geographic Information and Significant Customers

Operating segments are defined as components of an enterprise evaluated regularly by the Company's chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. During the first quarter of fiscal 2022, the Company announced its 1MPACT value creation initiative to promote scale as the organization continues to grow.

The Company evaluated this internal reorganization under FASB ASC 280, *Segment Reporting* ("ASC 280") to determine whether this change has impacted the Company's single operating and reportable segment. The Company concluded this change had no effect given the CODM continues to evaluate and manage the Company on the basis of one operating and reportable segment. The Company utilized the management approach for determining its operating segment in accordance with ASC 280.

The geographic distribution of the Company's revenues as determined by country in which the Company's legal subsidiary is domiciled is summarized as follows:

	U.S.	Europe	Asia Pacific	Eliminations	Total
THIRD QUARTER ENDED MARCH 31, 2023					
Net revenues to unaffiliated customers	$ 252,945	$ 10,525	$ 9	$ —	$ 263,479
Inter-geographic revenues	1,794	26	—	(1,820)	—
Net revenues	$ 254,739	$ 10,551	$ 9	$ (1,820)	$ 263,479
THIRD QUARTER ENDED APRIL 1, 2022					
Net revenues to unaffiliated customers	$ 243,100	$ 9,216	$ 759	$ —	$ 253,075
Inter-geographic revenues	(729)	824	—	(95)	—
Net revenues	$ 242,371	$ 10,040	$ 759	$ (95)	$ 253,075
NINE MONTHS ENDED MARCH 31, 2023					
Net revenues to unaffiliated customers	$ 690,922	$ 29,708	$ 16	$ —	$ 720,646
Inter-geographic revenues	1,873	398	—	(2,271)	—
Net revenues	$ 692,795	$ 30,106	$ 16	$ (2,271)	$ 720,646
NINE MONTHS ENDED APRIL 1, 2022					
Net revenues to unaffiliated customers	$ 666,336	$ 31,211	$ 921	$ —	$ 698,468
Inter-geographic revenues	2,418	2,152	—	(4,570)	—
Net revenues	$ 668,754	$ 33,363	$ 921	$ (4,570)	$ 698,468

The Company offers a broad family of products and processing solutions designed to meet the full range of requirements in compute-intensive, signal processing, image processing and command and control applications. To maintain a competitive advantage, the Company seeks to leverage technology investments across multiple product lines and product solutions.

The Company's products are typically compute-intensive and require extremely high bandwidth and high throughput. These processing solutions often must also meet significant SWaP constraints for use in aircraft, unmanned aerial vehicles, ships and other platforms and be ruggedized for use in harsh environments. The Company's products transform the massive streams of digital data created in these applications into usable information in real time. The systems can scale from a few processors to thousands of processors.

In recent years, the Company completed a series of acquisitions that augmented its technological capabilities, applications and end markets. As these acquisitions and changes occurred, the Company's proportion of revenue derived from the sale of components in different technological areas, and modules, sub-assemblies and integrated subsystems which combine technologies into more complex diverse products has shifted. The following tables present revenue consistent with the Company's strategy of expanding its technological capabilities and program content. As additional information related to the Company's products by end user, application, product grouping and/or platform is attained, the categorization of these products can vary over time. When this occurs, the Company reclassifies revenue by end user, application, product grouping and/or platform for prior periods. Such reclassifications typically do not materially change the underlying trends of results within each revenue category.

The following table presents the Company's net revenue by end user for the periods presented:

	Third Quarters Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Domestic(1)	$ 238,159	$ 227,254	$ 648,948	$ 603,094
International/Foreign Military Sales(2)	25,320	25,821	71,698	95,374
Total Net Revenue	$ 263,479	$ 253,075	$ 720,646	$ 698,468

(1) Domestic revenues consist of sales where the end user is within the U.S., as well as sales to prime defense contractor customers where the ultimate end user location is not defined.
(2) International/Foreign Military Sales consist of sales to U.S. prime defense contractor customers where the end user is outside the U.S., foreign military sales through the U.S. government and direct sales to non-U.S. based customers intended for end use outside of the U.S.

The following table presents the Company's net revenue by end application for the periods presented:

	Third Quarters Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Radar[1]	$ 83,853	$ 50,033	$ 180,968	$ 160,109
Electronic Warfare[2]	35,939	44,010	104,746	110,320
Other Sensor & Effector[3]	20,143	23,768	70,679	77,374
Total Sensor & Effector	139,935	117,811	356,393	347,803
C4I[4]	104,188	111,282	303,054	285,614
Other[5]	19,356	23,982	61,199	65,051
Total Net Revenue	$ 263,479	$ 253,075	$ 720,646	$ 698,468

(1) Radar includes end-use applications where radio frequency signals are utilized to detect, track and identify objects.
(2) Electronic Warfare includes end-use applications comprising the offensive and defensive use of the electromagnetic spectrum.
(3) Other Sensor and Effector products include all Sensor and Effector end markets other than Radar and Electronic Warfare.
(4) C4I includes rugged secure rackmount servers that are designed to drive the most powerful military processing applications.
(5) Other products include all component and other sales where the end use is not specified.

The following table presents the Company's net revenue by product grouping for the periods presented:

	Third Quarters Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Components[1]	$ 53,187	$ 42,198	$ 130,263	$ 108,735
Modules and Sub-assemblies[2]	55,433	52,719	173,547	134,342
Integrated Subsystems[3]	154,859	158,158	416,836	455,391
Total Net Revenue	$ 263,479	$ 253,075	$ 720,646	$ 698,468

(1) Components represent the basic building blocks of an electronic system. They generally perform a single function such as switching, storing or converting electronic signals. Some examples include power amplifiers and limiters, switches, oscillators, filters, equalizers, digital and analog converters, chips, MMICs (monolithic microwave integrated circuits) and memory and storage devices.
(2) Modules and sub-assemblies combine multiple components to serve a range of complex functions, including processing, networking and graphics display. Typically delivered as computer boards or other packaging, modules and sub-assemblies are usually designed using open standards to provide interoperability when integrated in a subsystem. Examples of modules and sub-assemblies include embedded processing boards, switched fabrics and boards for high-speed input/output, digital receivers, graphics and video, along with multi-chip modules, integrated radio frequency and microwave multi-function assemblies and radio frequency tuners and transceivers.
(3) Integrated subsystems bring components, modules and/or sub-assemblies into one system, enabled with software. Subsystems are typically, but not always, integrated within an open standards-based chassis and often feature interconnect technologies to enable communication between disparate systems. Spares and replacement modules and sub-assemblies are provided for use with subsystems sold by the Company. The Company’s subsystems are deployed in sensor processing, aviation and mission computing and C4I applications.

The following table presents the Company's net revenue by platform for the periods presented:

	Third Quarters Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Airborne[1]	$ 126,674	$ 126,176	$ 364,968	$ 353,730
Land[2]	58,816	38,285	119,483	100,118
Naval[3]	39,961	42,725	104,900	116,938
Other[4]	38,028	45,889	131,295	127,682
Total Net Revenues	$ 263,479	$ 253,075	$ 720,646	$ 698,468

(1) Airborne platform includes products that relate to personnel, equipment or pieces of equipment designed for airborne applications.
(2) Land platform includes products that relate to fixed or mobile equipment, or pieces of equipment for personnel, weapon systems, vehicles and support elements operating on land.
(3) Naval platform includes products that relate to personnel, equipment or pieces of equipment designed for naval operations.
(4) All platforms other than Airborne, Land or Naval.

The geographic distribution of the Company’s identifiable long-lived assets is summarized as follows:

	U.S.	Europe	Asia Pacific	Eliminations	Total
March 31, 2023	$ 116,212	$ 3,270	$ —	$ —	$ 119,482
July 1, 2022	$ 122,712	$ 4,476	$ 3	$ —	$ 127,191

Identifiable long-lived assets exclude right-of-use assets, goodwill, and intangible assets.

Customers comprising 10% or more of the Company’s revenues for the periods shown are as follows:

	Third Quarters Ended		Nine Months Ended	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Raytheon Technologies	18 %	15 %	14 %	15 %
Lockheed Martin Corporation	13 %	*	14 %	*
Northrop Grumman	11 %	*	11 %	*
U.S. Navy	*	14 %	10 %	15 %
	42 %	29 %	49 %	30 %

* Indicates that the amount is less than 10% of the Company's revenue for the respective period.

While the Company typically has customers from which it derives 10% or more of its revenue, the sales to each of these customers are spread across multiple programs and platforms. There were no programs comprising 10% or more of the Company's revenues for the third quarters and nine months ended March 31, 2023 and April 1, 2022.

N. Commitments and Contingencies

Legal Claims

The Company is subject to litigation, claims, investigations and audits arising from time to time in the ordinary course of business. Although legal proceedings are inherently unpredictable, the Company believes that it has valid defenses with respect to any matters currently pending against the Company and intends to defend itself vigorously. The outcome of these matters, individually and in the aggregate, is not expected to have a material impact on the Company's cash flows, results of operations, or financial position.

In June 2021, Embedded Reps of America, LLC (“ERA”), a former sales representative, and James Mazzola, a principal of ERA, filed for binding arbitration related to the termination of ERA’s sales representative agreement raising multiple claims that aggregate to approximately $9,000 in direct damages, with treble damages requested on a number of those claims. ERA was a sales representative of Themis Computer (“Themis”) when Themis was acquired by Mercury. The sales representative agreement provided for termination by either party upon 30 days written notice with ERA entitled to commissions for orders obtained by ERA with product shipment occurring prior to termination. The Company responded to the complaint in July 2021. An arbitration proceeding was held during September 2022, with final motions in October 2022 and oral arguments in November 2022. The arbitrator issued its final ruling in January 2023, awarding ERA $72 in damages and fees.

In December 2021, counsel for National Technical Systems, Inc. (“NTS”) sent the Company an environmental demand letter pursuant to Massachusetts General Laws Chapter 21E, Section 4A, and CERCLA 42 U.S.C. Section 9601, related to a site that NTS formerly owned at 533 Main Street, Acton, Massachusetts. NTS received a Notice of Responsibility from the Massachusetts Department of Environmental Protection (“MassDEP”) alleging trichloroethene, freon and 1,4-dioxane contamination in the groundwater emanating from NTS’s former site. NTS alleges in its demand letter that the operations of a predecessor company to Mercury which was acquired in the Company’s acquisition of the Microsemi carve-out business that once owned and operated a facility at 531 Main Street, Acton, Massachusetts contributed to the groundwater contamination. NTS is seeking payment by the Company of NTS’s costs for any required environmental remediation. In April 2022, the Company engaged in a meet and confer session with NTS pursuant to Massachusetts General Laws Chapter 21E, Section 4A to discuss the status of the environmental review performed by NTS and its licensed site professional. In addition, in November 2021, the Company responded to a request for information from MassDEP regarding the detection of PFAS (per- and polyfluoroakyl substances) in the Acton, Massachusetts Water District’s Conant public water supply wells near the former facility at 531 Main Street, Acton, Massachusetts at a level above the standard that MassDEP published for PFAS in October 2020. It is too early to determine what responsibility, if any, the Company may have for these matters.

INDEMNIFICATION OBLIGATIONS

The Company’s standard product sales and license agreements entered into in the ordinary course of business typically contain an indemnification provision pursuant to which the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with any patent, copyright or other intellectual property infringement claim by any third party with respect to the Company’s products. Such provisions generally survive termination or expiration of the agreements. The potential amount of future payments the Company could be required to make under these indemnification provisions is, in some instances, unlimited.

PURCHASE COMMITMENTS

As of March 31, 2023, the Company has entered into non-cancelable purchase commitments for certain inventory components and services used in its normal operations. The purchase commitments covered by these agreements are for less than one year and aggregate to $142,698.

OTHER

As part of the Company's strategy for growth, the Company continues to explore acquisitions or strategic alliances. The associated acquisition costs incurred in the form of professional fees and services may be material to the future periods in which they occur, regardless of whether the acquisition is ultimately completed.

The Company may elect from time to time to purchase and subsequently retire shares of common stock in order to settle employees’ tax liabilities associated with vesting of a restricted stock award or exercise of stock options. These transactions would be treated as a use of cash in financing activities in the Company's Consolidated Statements of Cash Flows.

O. Derivatives

The Company utilizes interest rate derivatives to mitigate interest rate exposure with respect to its financing arrangements. On September 7, 2022, the Company entered into an interest rate Swap (the “initial Swap”) with JP Morgan Chase Bank, N.A. (“JPMorgan”) for a notional amount of $300,000 in order to fix the interest rate associated with a portion of the total $511,500 existing borrowings on the Revolver. The initial Swap agreement was designated and qualified for hedge accounting treatment as a cash flow hedge. The initial Swap matures on February 28, 2027, coterminous with the maturity of the Revolver. The initial Swap established a fixed interest rate on the first $300,000 of the Company's outstanding borrowings against the Revolver obligation at 3.25%.

On September 29, 2022, the Company terminated the initial Swap. At the time of termination, the fair value of the initial Swap was an asset of $5,995. The Company received the cash settlement of $5,995 and these proceeds are classified within Operating Activities of the Consolidated Statements of Cash Flows. During the third quarter and nine months ended March 31, 2023, the Company amortized $339 and $678, respectively, of the gain, which is included within Other comprehensive income (loss).

Following the termination of the initial Swap the Company entered a new Swap agreement (“the Swap”) on September 29, 2022 with JPMorgan. The Swap fixes $300,000 of the total $511,500 existing borrowings of outstanding borrowings under the Revolver at a rate of 3.79%. As of March 31, 2023, the fair value of the hedge was a liability of $3,244 and is included within Other non-current liabilities in the Company's Consolidated Balance Sheets.

The market risk associated with the Company’s derivative instrument is the result of interest rate movements that are expected to offset the market risk of the underlying arrangement. The counterparty to the Swap is JPMorgan. Based on the credit ratings of the Company’s counterparty as of March 31, 2023, nonperformance is not perceived to be a material risk. Furthermore, none of the Company’s derivatives are subject to collateral or other security arrangements and none contain provisions that are dependent on the Company’s credit ratings from any credit rating agency. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company’s exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of the counterparty to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparty obligations under the contracts exceed the obligations of the Company to the counterparty. As a result of the above considerations, the Company does not consider the risk of counterparty default to be significant.

P. Subsequent Events

The Company has evaluated subsequent events from the date of the Consolidated Balance Sheet through the date the consolidated financial statements were issued and noted no items requiring adjustment of the financial statements or additional disclosures.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

From time to time, information provided, statements made by our employees or information included in our filings with the Securities and Exchange Commission ("SEC") may contain statements that are not historical facts but that are "forward-looking statements," which involve risks and uncertainties. You can identify these statements by the use of the words "may," "will," "could," "should," "would," "plans," "expects," "anticipates," "continue," "estimate," "project," "intend," "likely," "forecast," "probable," "potential," and similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, continued funding of defense programs, the timing and amounts of such funding, general economic and business conditions, including unforeseen weakness in the Company's markets, effects of epidemics and pandemics such as COVID, effects of any U.S. Federal government shutdown or extended continuing resolution, effects of continued geopolitical unrest and regional conflicts, competition, inflation, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in, or in the U.S. Government's interpretation of, federal export control or procurement rules and regulations, changes in, or in the interpretation or enforcement of, environmental rules and regulations, market acceptance of the Company's products, shortages in or delays in receiving components, supply chain delays or volatility for critical components such as semiconductors, production delays or unanticipated expenses including due to performance quality issues or manufacturing execution issues, the impact of the COVID pandemic and supply chain disruption, inflation and labor shortages, among other things, on program execution and the resulting effect on customer satisfaction, inability to fully realize the expected benefits from acquisitions, restructurings and value creation initiatives such as 1MPACT, or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, effects of shareholder activism, increases in interest rates, changes to industrial security and cyber-security regulations and requirements and impacts from any cyber or insider threat events, changes in tax rates or tax regulations, such as the deductibility of internal research and development, changes to interest rate swaps or other cash flow hedging arrangements, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, which difficulties may be enhanced by our announced strategic review initiative, including a potential sale of the Company, unanticipated challenges with the transition of the Company's Chief Financial Officer role, unanticipated costs under fixed-price service and system integration engagements, and various other factors beyond our control. These risks and uncertainties also include such additional risk factors as set forth under Part I-Item 1A (Risk Factors) in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2022. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

OVERVIEW

Mercury Systems, Inc. is a technology company that delivers commercial innovation to rapidly transform the global aerospace and defense industry. Headquartered in Andover, Massachusetts, our end-to-end processing platform enables a broad range of aerospace and defense programs, optimized for mission success in some of the most challenging and demanding environments. Our Processing Platform includes signal solutions, display, software applications, networking, storage and secure processing. Our innovative solutions are mission-ready, trusted and secure, software-defined and open and modular to meet our customers' most-pressing high-tech needs, including those specific to the aerospace and defense community. Customers access our solutions via the Mercury platform, which encompasses the broad scope of our investments in technologies, companies, products, services and the expertise of our people. Ultimately, we connect our customers to what matters most to them. We connect commercial technology to defense, people to data, partners to opportunities and the present to the future. And, at the most human level, we connect what we do to our customers' missions; supporting the people for whom safety, security and protecting freedom are of paramount importance.

As a leading manufacturer of essential components, products, modules and subsystems, we sell to defense prime contractors, the U.S. government and original equipment manufacturers ("OEM") commercial aerospace companies. We have built a trusted, contemporary portfolio of proven product solutions purpose-built for aerospace and defense that we believe meets and exceeds the performance needs of our defense and commercial customers. Customers add their own applications and algorithms to our specialized, secure and innovative products and pre-integrated solutions. This allows them to complete their full system by integrating with their platform, the sensor technology and, increasingly, the processing from us. Our products and solutions are deployed in more than 300 programs with over 25 different defense prime contractors and commercial aviation customers.

Our transformational business model accelerates the process of making new technology profoundly more accessible to our customers by bridging the gap between commercial technology and aerospace and defense applications. Our long-standing deep relationships with leading high-tech and other commercial companies, coupled with our high level of research and development ("R&D") investments on a percentage basis and industry-leading trusted and secure design and manufacturing capabilities, are the foundational tenets of this highly successful model. We are leading the development and adaptation of commercial technology for aerospace and defense solutions. From chip-scale to system scale and from data, including radio frequency ("RF") to digital to decision, we make mission-critical technologies safe, secure, affordable and relevant for our customers.

Our capabilities, technology, people and R&D investment strategy combine to differentiate us in our industry. We maintain our technological edge by investing in critical capabilities and intellectual property ("IP" or "building blocks") in processing, leveraging open standards and open architectures to adapt quickly those building blocks into solutions for highly data-intensive applications, including emerging needs in areas such as artificial intelligence ("AI").

Our mission critical solutions are deployed by our customers for a variety of applications including command, control, communications, computers, intelligence, surveillance and reconnaissance ("C4ISR"), electronic intelligence, mission computing avionics, electro-optical/infrared ("EO/IR"), electronic warfare, weapons and missile defense, hypersonics and radar.

Since we conduct much of our business with our defense customers via commercial items, requests by customers are a primary driver of revenue fluctuations from quarter to quarter. Customers specify delivery date requirements that coincide with their need for our products. Because these customers may use our products in connection with a variety of defense programs or other projects of different sizes and durations, a customer's orders for one quarter generally do not indicate a trend for future orders by that customer. Additionally, order patterns do not necessarily correlate amongst customers and, therefore, we generally cannot identify sequential quarterly trends.

As of March 31, 2023, we had 2,537 employees. We employ hardware and software architects and design engineers, primarily engaged in engineering and research and product development activities to achieve our objectives to fully capitalize upon and maintain our technological leads in the high-performance, real-time sensor processing industry and in mission computing, platform management and other safety-critical applications. Our talent attraction, engagement and retention is critical to execute on our long-term strategy. We invest in our culture and values to drive employee engagement that turns ideas into action, delivering trusted and secure solutions at the speed of innovation. We believe that our success depends on our ability to embrace diversity company-wide and realize the benefits of a diverse workforce that includes a greater variety of solutions to problems, a broader collection of skills and experiences and an array of viewpoints to consider. We are strongly focused on providing an inclusive environment that respects the diversity of the world. We believe that the workforce required to grow our business and deliver creative solutions must be rich in diversity of thought, experience and culture. Our diversity and inclusion initiatives focus on building and maintaining the talent that will create cohesive and collaborative teams that drive innovation. We believe that these values will help our employees realize their full potentials at work to provide Innovation That Matters®.

Our consolidated revenues, net income, diluted net earnings per share, adjusted earnings per share ("adjusted EPS"), and adjusted EBITDA for the third quarter ended March 31, 2023 were $263.5 million, $5.2 million, $0.09, $0.40, and $43.5 million, respectively. Our consolidated revenues, acquired revenues, net loss, diluted net loss per share, adjusted earnings per share ("adjusted EPS"), and adjusted EBITDA for the nine months ended March 31, 2023 were $720.6 million, $25.1 million, $(20.1) million, $(0.36), $0.89, and $110.3 million. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

RESULTS OF OPERATIONS:

Results of operations for the third quarters ended March 31, 2023 and April 1, 2022 include full period results from the acquisitions of Atlanta Micro, Inc ("Atlanta Micro") and Avalex Technologies, LLC. ("Avalex"). Results of operations for the nine months ended March 31, 2023 and April 1, 2022 include only results from the acquisition date for Avalex and Atlanta Micro which were acquired on November 5, 2021 and November 29, 2021, respectively. Accordingly, the periods presented below are not directly comparable.

The third quarter ended March 31, 2023 compared to the third quarter ended April 1, 2022

The following table sets forth, for the third quarter ended indicated, financial data from the Consolidated Statements of Operations and Comprehensive Income (Loss):

(In thousands)	March 31, 2023	As a % of Total Net Revenue	April 1, 2022	As a % of Total Net Revenue
Net revenues	$ 263,479	100.0 %	$ 253,075	100.0 %
Cost of revenues	173,190	65.7	153,321	60.6
Gross margin	90,289	34.3	99,754	39.4
Operating expenses:				
Selling, general and administrative	44,626	16.9	39,261	15.5
Research and development	26,516	10.1	25,387	10.0
Amortization of intangible assets	12,809	4.9	16,077	6.4
Restructuring and other charges	2,778	1.1	6,348	2.5
Acquisition costs and other related expenses	1,606	0.6	2,726	1.1
Total operating expenses	88,335	33.6	89,799	35.5
Income from operations	1,954	0.7	9,955	3.9
Interest income	80	—	110	—
Interest expense	(6,711)	(2.5)	(1,664)	(0.7)
Other expense, net	(613)	(0.2)	(2,160)	(0.8)
(Loss) income before income taxes	(5,290)	(2.0)	6,241	2.4
Income tax (benefit) provision	(10,446)	(4.0)	2,102	0.8
Net income	$ 5,156	2.0 %	$ 4,139	1.6 %

REVENUES

Total revenues increased $10.4 million, or 4.1%, to $263.5 million during the third quarter ended March 31, 2023, as compared to $253.1 million during the third quarter ended April 1, 2022. These increases were driven by the components and modules and sub-assemblies product groupings which grew $11.0 million and $2.7 million, respectively, partially offset by decreases to integrated subsystems of $3.3 million. The increase in total revenue was primarily driven by an increase to the radar end application of $33.8 million, partially offset by decreases to electronic warfare, C4I, other end applications and other sensor and effector end applications which decreased $8.1 million, $7.1 million, $4.6 million and $3.6 million, respectively. The increase was primarily within the land platform which grew $20.5 million, partially offset by decreases across the other and naval platforms of $7.9 million and $2.8 million, respectively, during the third quarter ended March 31, 2023. The largest program increases were related to the LTAMDS, a secure processing program, F-16, a classified C4I program, and F-35 programs. There were no programs comprising 10% or more of our revenues for the third quarters ended March 31, 2023 or April 1, 2022.

GROSS MARGIN

Gross margin was 34.3% for the third quarter ended March 31, 2023, a decrease of 510 basis points from the 39.4% gross margin realized during the third quarter ended April 1, 2022. The lower gross margin was primarily driven by program mix as well as product and program execution challenges. Program mix was more heavily weighted towards development programs as compared to the prior period, which carry lower average gross margins as compared to production programs. These programs warrant higher engineering labor for customized development, production and service activities. The nature of these efforts results in lower margin content, but serve as pre-cursors to higher margin production awards. In addition, we experienced increased costs associated with certain development programs in the final stages of execution resulting in higher than expected labor and material charges in the period.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased $5.3 million, or 13.7%, to $44.6 million during the third quarter ended March 31, 2023, as compared to $39.3 million in the third quarter ended April 1, 2022. The increase was primarily related to an increase in our 401(k) matching contributions from 3% to 6%, increased stock compensation expense of $0.7 million as well as an increase in headcount and salary rate increases.

RESEARCH AND DEVELOPMENT

Research and development expenses increased $1.1 million, or 4.4%, to $26.5 million during the third quarter ended March 31, 2023, as compared to $25.4 million during the third quarter ended April 1, 2022. The increase during the third quarter ended March 31, 2023 was primarily due to headcount as we return to normalized resource levels following a period of higher attrition in the prior year. This increase was partially offset by increased CRAD of $4.2 million as a result of a higher mix of development programs during the third quarter ended March 31, 2023.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets decreased $3.3 million to $12.8 million during the third quarter ended March 31, 2023, as compared to $16.1 million during the third quarter ended April 1, 2022, primarily due to the backlog from our Avalex and Atlanta Micro acquisitions being fully amortized in fiscal 2023.

RESTRUCTURING AND OTHER CHARGES

During the third quarter ended March 31, 2023, we incurred $2.8 million of restructuring and other charges, as compared to $6.3 million during the third quarter ended April 1, 2022. Restructuring and other charges during the third quarter ended March 31, 2023 includes $2.0 million related to severance costs and $0.8 million of costs related to facility optimization efforts associated with 1MPACT, including $0.5 million related to lease asset impairment. Restructuring and other charges during the third quarter ended April 1, 2022 primarily related to 1MPACT including $5.5 million of third party consulting costs, $0.8 million of facility optimization costs and $0.1 million related to severance costs.

ACQUISITION COSTS AND OTHER RELATED EXPENSES

Acquisition costs and other related expenses were $1.6 million during the third quarter ended March 31, 2023 as compared to $2.7 million during the third quarter ended April 1, 2022. The acquisition costs and other related expenses during the third quarter ended March 31, 2023 includes $1.3 million associated with the Board of Directors' review of strategic alternatives. We expect to continue to incur such acquisition costs and other related expenses in the future as we continue to seek opportunities to enhance shareholder value.

INTEREST EXPENSE

We incurred $6.7 million of interest expense during the third quarter ended March 31, 2023, as compared to $1.7 million during the third quarter ended April 1, 2022. The increase was driven by an increase in interest rate and higher average borrowings on our Revolver (the "Revolver"). As of the third quarter ended March 31, 2023, we had total borrowings of $511.5 million on our Revolver as compared to $451.5 million of total borrowings as of the third quarter ended April 1, 2022.

OTHER EXPENSE, NET

Other expense, net decreased to $0.6 million during the third quarter ended March 31, 2023, as compared to $2.2 million during the third quarter ended April 1, 2022. The third quarter ended March 31, 2023 includes $0.6 million of financing costs, litigation and settlement expenses of $0.3 million, partially offset by net foreign currency translation gains of $0.3 million. The third quarter ended April 1, 2022 includes $0.9 million of financing costs, net foreign currency translation losses of $0.6 million and $0.3 million of litigation and settlement expenses.

INCOME TAXES

We recorded an income tax (benefit) provision of $(10.4) million and $2.1 million on a (loss) income before income taxes of $(5.3) million and $6.2 million for the third quarters ended March 31, 2023 and April 1, 2022, respectively.

For the third quarter ended March 31, 2023, we calculated our U.S. income tax benefit using the discrete method which assumes the nine month period was the annual period as this was more appropriate given the facts and circumstances. We determined that the application of the estimated annual effective tax rate ("AETR") method generally required by ASC 740 is impractical given that normal deviations in the projected close to break-even pre-tax net income (loss) could result in a disproportionate and unreliable effective tax rate under the AETR method. The tax benefit for the third quarter ended March 31, 2023 also includes a true-up to the prior quarters due to the change in methodology.

During the third quarter ended March 31, 2023, we concluded the income tax audit with the Internal Revenue Service for fiscal years 2016 through 2018 and recognized a tax benefit of $1.3 million related to a release of income tax reserves for unrecognized income tax benefits.

The effective tax rate for the third quarters ended March 31, 2023 and April 1, 2022 differed from the federal statutory rate primarily due to federal and state research and development credits, non-deductible compensation and state taxes. The effective tax rate for the third quarter ended March 31, 2023 also differed from the federal statutory rate due to the release for previously unrecognized income tax benefits.

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 into law which contained provisions that include a 15% corporate minimum tax effective for taxable years beginning after December 31, 2022 and a 1% excise tax on certain stock buybacks after December 31, 2022. We expect the impact of this legislation to be immaterial.

Effective for tax years beginning after December 31, 2021, the Tax Cuts and Jobs Act of 2017 requires companies to capitalize and amortize domestic research and development expenditures over five years for tax purposes, and foreign research and development expenditures over fifteen years for tax purposes. We estimate the cash impact from this provision to be approximately $30 million in fiscal 2023.

Nine months ended March 31, 2023 compared to the nine months ended April 1, 2022

The following table sets forth, for the nine month periods indicated, financial data from the Consolidated Statements of Operations and Comprehensive Income (Loss):

(In thousands)	March 31, 2023	As a % of Total Net Revenue	April 1, 2022	As a % of Total Net Revenue
Net revenues	$ 720,646	100.0 %	$ 698,468	100.0 %
Cost of revenues	471,302	65.4	423,083	60.6
Gross margin	249,344	34.6	275,385	39.4
Operating expenses:				
Selling, general and administrative	128,626	17.8	113,027	16.2
Research and development	81,188	11.3	82,604	11.8
Amortization of intangible assets	40,919	5.7	45,813	6.6
Restructuring and other charges	6,355	0.9	22,424	3.2
Acquisition costs and other related expenses	5,043	0.7	7,524	1.1
Total operating expenses	262,131	36.4	271,392	38.9
(Loss) income from operations	(12,787)	(1.8)	3,993	0.5
Interest income	329	—	124	—
Interest expense	(17,848)	(2.5)	(3,353)	(0.4)
Other expense, net	(3,412)	(0.4)	(4,898)	(0.7)
Loss before income taxes	(33,718)	(4.7)	(4,134)	(0.6)
Income tax (benefit) provision	(13,619)	(1.9)	1,506	0.2
Net loss	$ (20,099)	(2.8)%	$ (5,640)	(0.8)%

REVENUES

Total revenues increased $22.2 million, or 3.2%, to $720.6 million during the nine months ended March 31, 2023, as compared to $698.5 million during the nine months ended April 1, 2022. The increase in total revenue was primarily due to additional acquired and organic revenues of $19.0 million and $3.2 million, respectively. The increase was driven by higher demand for modules and sub-assemblies and components which increased $39.2 million and $21.5 million, respectively, and was partially offset by a decrease in integrated subsystems of $38.6 million during the nine months ended March 31, 2023. The increase in total revenue was primarily from the radar and C4I end applications which increased $20.9 million and $17.4 million, respectively, and was partially offset by decreases of $6.7 million, $5.6 million and $3.9 million from other sensor and effector, electronic warfare and other end applications, respectively. The increase was primarily across the land, airborne and other platforms which grew $19.4 million, $11.2 million and $3.6 million, respectively, partially offset by a decrease to the naval platform of $12.0 million during the nine months ended March 31, 2023. The largest program increases were related to the LTAMDS, F-35, a secure processing program, F-16 and NDSA programs. There were no programs comprising 10% or more of our revenues for the nine months ended March 31, 2023 or April 1, 2022. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

GROSS MARGIN

Gross margin was 34.6% for the nine months ended March 31, 2023, a decrease of 480 basis points from the 39.4% gross margin realized during the nine months ended April 1, 2022. The lower gross margin was primarily driven by program mix as well as product and program execution challenges. Program mix was more heavily weighted towards development programs as compared to the prior period, which carry lower average gross margins as compared to production programs. These programs warrant higher engineering labor for customized development, production and service activities. The nature of these efforts results in lower margin content, but serve as pre-cursors to higher margin production awards. In addition, we experienced increased costs associated with certain development programs in the final stages of execution resulting in higher than expected labor and material charges in the period. Program mix was also impacted by a customer funding delay on a large FMS sale. In connection with our 1MPACT facility optimization efforts, we are exiting certain facilities prior to contractual lease terms and consolidating operations across other existing sites. In addition, as part of our assessment of future benefits of certain long-lived assets, we identified an immaterial correction of an error in the useful lives assigned to certain leasehold improvements resulting in a cumulative adjustment to depreciation expense, which was recorded during the second quarter ended December 30, 2022.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased $15.6 million, or 13.8%, to $128.6 million during the nine months ended March 31, 2023, as compared to $113.0 million during the nine months ended April 1, 2022. The increase was primarily related to a full period of the Avalex and Atlanta Micro acquisitions driving an incremental $1.9 million of expense, an increase in our 401(k) matching contributions from 3% to 6%, increased stock compensation expense of $0.3 million as well as an increase in headcount and salary rate increases.

RESEARCH AND DEVELOPMENT

Research and development expenses decreased $1.4 million, or 1.7%, to $81.2 million during the nine months ended March 31, 2023, as compared to $82.6 million during the nine months ended April 1, 2022. The decrease was primarily related to lower headcount as well as incremental CRAD of $9.4 million, partially offset by an increase in our 401(k) matching contributions from 3% to 6% during the nine months ended March 31, 2023.

RESTRUCTURING AND OTHER CHARGES

Restructuring and other charges were $6.4 million during the nine months ended March 31, 2023, as compared to $22.4 million during the nine months ended April 1, 2022. Restructuring and other charges during the nine months ended March 31, 2023 primarily related to 1MPACT including $2.8 million of severance costs, $1.8 million of third party consulting costs, $1.8 million of costs for facility optimization efforts, including $1.3 million related to lease asset impairment. Restructuring and other charges during the nine months ended April 1, 2022 primarily related to $14.1 million of third party consulting costs associated with 1MPACT and $7.5 million of severance costs associated with the elimination of approximately 110 positions across manufacturing, SG&A and R&D based on ongoing talent and workforce optimization efforts. In addition, the nine months ended April 1, 2022 includes $0.8 million of costs for facilities optimization efforts associated with 1MPACT, including $0.5 million related to lease asset impairment.

ACQUISITION COSTS AND OTHER RELATED EXPENSES

Acquisition costs and other related expenses were $5.0 million during the nine months ended March 31, 2023, as compared to $7.5 million during the nine months ended April 1, 2022. The acquisition costs and other related expenses we incurred during the nine months ended March 31, 2023 were primarily related to $2.5 million for third party advisory fees in connection with engagements by activist investors and $1.3 million associated with the Board of Directors' review of strategic alternatives. Acquisition costs during the nine months ended April 1, 2022 were primarily related to the acquisitions of Avalex and Atlanta Micro as well as $2.7 million for third party advisory fees in connection with engagements by activist investors. We expect to continue to incur such acquisition costs and other related expenses in the future as we continue to seek opportunities to enhance shareholder value.

INTEREST EXPENSE

We incurred $17.8 million of interest expense during the nine months ended March 31, 2023, as compared to $3.4 million during the nine months ended April 1, 2022. The increase was driven by an increase in interest rate and additional borrowings on our Revolver as compared to the nine months ended April 1, 2022. As of the nine months ended March 31, 2023, we had total borrowings of $511.5 million on our Revolver as compared to $451.5 million of total borrowings as of the nine months ended April 1, 2022.

OTHER EXPENSE, NET

Other expense, net decreased $1.5 million to $3.4 million during the nine months ended March 31, 2023 as compared to $4.9 million during the nine months ended April 1, 2022. There was $1.7 million of both financing costs and litigation and settlement costs, respectively, during the nine months ended March 31, 2023. There was $2.1 million of financing costs, $1.3 million of net foreign currency translation losses and $1.2 million of litigation and settlement expenses during the nine months ended April 1, 2022.

INCOME TAXES

We recorded an income tax (benefit) provision of $(13.6) million and $1.5 million on a loss before income taxes of $33.7 million and $4.1 million for the nine months ended March 31, 2023 and April 1, 2022, respectively.

For the nine months ended March 31, 2023, we calculated our U.S. income tax benefit using the discrete method which assumes the nine month period was the annual period as this was more appropriate given the facts and circumstances. We determined that the application of the estimated annual effective tax rate ("AETR") method generally required by ASC 740 is impractical given that normal deviations in the projected close to break-even pre-tax net income (loss) could result in a disproportionate and unreliable effective tax rate under the AETR method. The tax benefit for the third quarter ended March 31, 2023 also includes a true-up to the prior quarters due to the change in methodology.

During the nine months ended March 31, 2023, we concluded our income tax audit with the Internal revenue service for fiscal years 2016 through 2018 and recognized a tax benefit of $3.7 million related to a release of income tax reserves for unrecognized income tax benefits. During the nine months ended March 31, 2023 and April 1, 2022, we recognized a tax provision of $1.7 million and $0.9 million related to stock compensation shortfalls, respectively.

The effective tax rate for the nine months ended March 31, 2023 and April 1, 2022 differed from the federal statutory rate primarily due to federal and state research and development credits, non-deductible compensation, stock compensation shortfalls and state taxes. The effective tax rate for the nine months ended March 31, 2023 also differed from the federal statutory rate due to the release of income tax reserves for unrecognized income tax benefits.

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 into law which contained provisions that include a 15% corporate minimum tax effective for taxable years beginning after December 31, 2022 and a 1% excise tax on certain stock buybacks after December 31, 2022. We expect the impact of this legislation to be immaterial.

Effective for tax years beginning after December 31, 2021, the Tax Cuts and Jobs Act of 2017 requires companies to capitalize and amortize domestic research and development expenditures over five years for tax purposes, and foreign research and development expenditures over fifteen years for tax purposes. We estimate the cash outflow from this provision to be approximately $30 million in fiscal 2023.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity come from existing cash and cash generated from operations, our Revolver, our ability to raise capital under our universal shelf registration statement and our ability to factor our receivables. Our near-term fixed commitments for cash expenditures consist primarily of payments under operating leases and inventory purchase commitments. We plan to continue to invest in improvements to our facilities, continuous evaluation of potential acquisition opportunities and internal R&D to promote future growth, including new opportunities in avionics mission computers, secure processing, radar modernization and trusted custom microelectronics.

Based on our current plans and business conditions, we believe that existing cash and cash equivalents, our available Revolver, cash generated from operations and our financing capabilities will be sufficient to satisfy our anticipated cash requirements for at least the next twelve months.

Shelf Registration Statement

On September 14, 2020, we filed a shelf registration statement on Form S-3ASR with the SEC. The shelf registration statement, which was effective upon filing with the SEC, registered each of the following securities: debt securities, preferred stock, common stock, warrants and units. We intend to use the proceeds from financings using the shelf registration statement for general corporate purposes, which may include the following:

- the acquisition of other companies or businesses;
- the repayment and refinancing of debt;
- capital expenditures;
- working capital; and
- other purposes as described in the prospectus supplement.

We have an unlimited amount available under the shelf registration statement.

Revolving Credit Facilities

On February 28, 2022, we amended the Revolver to increase and extend the borrowing capacity to a $1.1 billion, 5-year revolving credit line, with the maturity extended to February 28, 2027. As of March 31, 2023, we had a total of approximately $1.0 billion available to us on the Revolver, less outstanding borrowings of $511.5 million. See Note I in the accompanying consolidated financial statements for further discussion of the Revolver.

Receivables Purchase Agreement

On September 27, 2022, we entered into an uncommitted receivables purchase agreement ("RPA") with Bank of the West, as purchaser, pursuant to which we may offer to sell certain customer receivables, subject to the terms and conditions of the RPA. The RPA is an uncommitted arrangement such that we are not obligated to sell any receivables and Bank of the West has no obligation to purchase any receivables from us. Pursuant to the RPA, Bank of the West may purchase certain of our customer receivables at a discounted rate, subject to a limit that as of any date, the total amount of purchased receivables held by Bank of the West, less the amount of all collections received on such receivables, may not exceed $20.0 million. The RPA has an indefinite term and the agreement remains in effect until it is terminated by either party. On March 14, 2023, we amended the RPA to increase the capacity from $20.0 million to $30.6 million. We factored accounts receivable and incurred factoring fees of approximately $24.5 million and $0.3 million, respectively, for the nine months ended March 31, 2023. We did not factor any accounts receivable or incur any factoring fees for the nine months ended April 1, 2022.

CASH FLOWS

	As of and For the Nine Months Ended,	
(In thousands)	**March 31, 2023**	**April 1, 2022**
Net cash (used in) provided by operating activities	$ (33,864)	$ 566
Net cash used in investing activities	$ (29,800)	$ (265,945)
Net cash provided by financing activities	$ 62,330	$ 243,638
Net decrease in cash and cash equivalents	$ (1,213)	$ (22,145)
Cash and cash equivalents at end of period	$ 64,441	$ 91,694

Our cash and cash equivalents decreased by $1.2 million from July 1, 2022 to March 31, 2023, primarily as the result of $33.9 million used in operating activities and $30.0 million invested in purchases of property and equipment, partially offset by $60.0 million of net borrowings on our Revolver and $2.4 million of proceeds from employee stock plans.

Operating Activities

During the nine months ended March 31, 2023, we had an outflow of $33.9 million in cash from operating activities compared to $0.6 million generated in cash from operating activities during the nine months ended April 1, 2022. The decrease was primarily due to higher outflows for inventory to support customer delivery schedules for existing and future awards. During the quarter, we experienced some stabilization of the supply chain with more timely receipts of material resulting in higher than expected outflows for inventory. The decrease was also driven by higher unbilled receivables and costs in excess of billings as a result of development program execution delays as well as certain long lead materials required to progress programs to the next billing milestone. These decreases were partially offset by additional deferred revenues and customer advances. Cash paid for interest and income taxes during the nine months ended March 31, 2023 also increased by $16.3 million and $6.9 million, respectively, as compared to the nine months ended April 1, 2022 further contributing to the decrease.

Investing Activities

During the nine months ended March 31, 2023, we invested $29.8 million, a decrease of $236.1 million, as compared to $265.9 million during the nine months ended April 1, 2022 primarily driven by the acquisitions of Avalex and Atlanta Micro. The decrease was also driven by $3.4 million less other investing activities, partially offset by $10.5 million higher purchases of property and equipment as compared to the nine months ended April 1, 2022.

Financing Activities

During the nine months ended March 31, 2023, we had $60.0 million of net borrowings on our Revolver as compared to $251.5 million of net borrowings during the nine months ended April 1, 2022. We also had $0.1 million of cash payments related to the purchase and retirement of common stock used to settle individual employees' tax liabilities associated with the annual vesting of restricted stock awards, as compared to $7.7 million in the nine months ended April 1, 2022. The decrease in the payments related to the purchase and retirement of common stock used to settle individual employees' tax liabilities associated with vesting of restricted stock awards is due to a change in our incentive stock plan tax withholding methods.

COMMITMENTS, CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The following is a schedule of our commitments and contractual obligations outstanding at March 31, 2023:

(In thousands)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Purchase obligations	$ 142,698	$ 142,698	$ —	$ —	$ —
Operating leases	94,441	14,013	26,914	23,818	29,696
	$ 237,139	$ 156,711	$ 26,914	$ 23,818	$ 29,696

Purchase obligations represent open non-cancelable purchase commitments for certain inventory components and services used in normal operations. The purchase commitments covered by these agreements are for less than one year and aggregated approximately $142.7 million at March 31, 2023.

We have a liability at March 31, 2023 of $4.9 million for uncertain tax positions that have been taken or are expected to be taken in various income tax returns. We do not know the ultimate resolution on these uncertain tax positions and as such, do not know the ultimate timing of payments or amount, if any, related to this liability. Accordingly, these amounts are not included in the above table.

Our standard product sales and license agreements entered into in the ordinary course of business typically contain an indemnification provision pursuant to which we indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred in connection with certain intellectual property infringement claims by any third party with respect to our products. Such provisions generally survive termination or expiration of the agreements. The potential amount of future payments we could be required to make under these indemnification provisions is, in some instances, unlimited.

As part of our strategy for growth, we continue to explore acquisitions or strategic alliances. The associated acquisition costs incurred in the form of professional fees and services may be material to the future periods in which they occur, regardless of whether the acquisition is ultimately completed.

We may elect from time to time to purchase and subsequently retire shares of common stock in order to settle employees' tax liabilities associated with vesting of a restricted stock award. These transactions would be treated as a use of cash in financing activities in our Consolidated Statements of Cash Flows.

OFF-BALANCE SHEET ARRANGEMENTS

Other than certain indemnification provisions in the normal course of business, we do not have any off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any obligation arising out of a material variable interest in an unconsolidated entity. We do not have any majority-owned subsidiaries that are not consolidated in the financial statements. Additionally, we do not have an interest in, or relationships with, any special purpose entities.

NON-GAAP FINANCIAL MEASURES

In our periodic communications, we discuss certain important measures that are not calculated according to U.S. generally accepted accounting principles ("GAAP"), including adjusted EBITDA, adjusted income, adjusted EPS, free cash flow, organic revenue and acquired revenue.

Adjusted EBITDA is defined as net income before other non-operating adjustments, interest income and expense, income taxes, depreciation, amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition, financing and other third party costs, fair value adjustments from purchase accounting, litigation and settlement income and expense, COVID related expenses, and stock-based and other non-cash compensation expense. We use adjusted EBITDA as an important indicator of the operating performance of our business. We use adjusted EBITDA in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our board of directors, determining the portion of bonus compensation for executive officers and other key employees based on operating performance, evaluating short-term and long-term operating trends in our operations and allocating resources to various initiatives and operational requirements. We believe that adjusted EBITDA permits a comparative assessment of our operating performance, relative to our performance based on our GAAP results, while isolating the effects of charges that may vary from period to period without any correlation to underlying operating performance. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making. We believe that trends in our adjusted EBITDA are valuable indicators of our operating performance.

Adjusted EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenses similar to the adjusted EBITDA financial adjustments described above, and investors should not infer from our presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring.

The following table reconciles our net income (loss), the most directly comparable GAAP financial measure, to our adjusted EBITDA:

	Third Quarters Ended		Nine Months Ended	
(In thousands)	**March 31, 2023**	**April 1, 2022**	**March 31, 2023**	**April 1, 2022**
Net income (loss)	$ 5,156	$ 4,139	$ (20,099)	$ (5,640)
Other non-operating adjustments, net	(337)	938	(3)	1,581
Interest expense, net	6,631	1,554	17,519	3,229
Income tax (benefit) provision	(10,446)	2,102	(13,619)	1,506
Depreciation	11,084	8,388	33,908	24,208
Amortization of intangible assets	12,809	16,077	40,919	45,813
Restructuring and other charges	2,778	6,348	6,355	22,424
Impairment of long-lived assets	—	—	—	—
Acquisition, financing and other third party costs	2,012	3,497	6,185	9,245
Fair value adjustments from purchase accounting	178	16	179	(1,715)
Litigation and settlement expense, net	366	320	1,741	1,202
COVID related expenses	1	182	62	639
Stock-based and other non-cash compensation expense	13,229	8,935	37,172	26,400
Adjusted EBITDA	$ 43,461	$ 52,496	$ 110,319	$ 128,892

Adjusted income and adjusted EPS exclude the impact of certain items and, therefore, have not been calculated in accordance with GAAP. We believe that exclusion of these items assists in providing a more complete understanding of our underlying results and trends and allows for comparability with our peer company index and industry. These non-GAAP financial measures may not be computed in the same manner as similarly titled measures used by other companies. We use these measures along with the corresponding GAAP financial measures to manage our business and to evaluate our performance compared to prior periods and the marketplace. We define adjusted income as net income before other non-operating adjustments, amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition, financing and other third party costs, fair value adjustments from purchase accounting, litigation and settlement income and expense, COVID related expenses, and stock-based and other non-cash compensation expense. The impact to income taxes includes the impact to the effective tax rate, current tax provision and deferred tax provision. Adjusted EPS expresses adjusted income on a per share basis using weighted average diluted shares outstanding.

Adjusted income and adjusted EPS are non-GAAP financial measures and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. We expect to continue to incur expenses similar to the adjusted income and adjusted EPS financial adjustments described above, and investors should not infer from our presentation of these non-GAAP financial measures that these costs are unusual, infrequent or non-recurring.

The following tables reconcile net income (loss) and diluted earnings (loss) per share, the most directly comparable GAAP measures, to adjusted income and adjusted EPS:

	Third Quarters Ended			
(In thousands, except per share data)	**March 31, 2023**		**April 1, 2022**	
Net income and earnings per share	$ 5,156	$ 0.09	$ 4,139	$ 0.07
Other non-operating adjustments, net	(337)		938	
Amortization of intangible assets	12,809		16,077	
Restructuring and other charges	2,778		6,348	
Impairment of long-lived assets	—		—	
Acquisition, financing and other third party costs	2,012		3,497	
Fair value adjustments from purchase accounting	178		16	
Litigation and settlement expense, net	366		320	
COVID related expenses	1		182	
Stock-based and other non-cash compensation expense	13,229		8,935	
Impact to income taxes[1]	(13,637)		(8,248)	
Adjusted income and adjusted earnings per share	$ 22,555	$ 0.40	$ 32,204	$ 0.57
Diluted weighted-average shares outstanding		56,896		56,027

(1) Impact to income taxes is calculated by recasting income before income taxes to include the items involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the items. The Company continues to calculate the adjusted income tax provision using the AETR method.

	Nine Months Ended			
(In thousands, except per share data)	**March 31, 2023**		**April 1, 2022**	
Net loss and loss per share	$ (20,099)	$ (0.36)	$ (5,640)	$ (0.10)
Other non-operating adjustments, net	(3)		1,581	
Amortization of intangible assets	40,919		45,813	
Restructuring and other charges	6,355		22,424	
Impairment of long-lived assets	—		—	
Acquisition and financing costs	6,185		9,245	
Fair value adjustments from purchase accounting	179		(1,715)	
Litigation and settlement expense, net	1,741		1,202	
COVID related expenses	62		639	
Stock-based and other non-cash compensation expense	37,172		26,400	
Impact to income taxes[1]	(21,867)		(23,221)	
Adjusted income and adjusted earnings per share[2]	$ 50,644	$ 0.89	$ 76,728	$ 1.38
Diluted weighted-average shares outstanding		56,653		55,780

(1) Impact to income taxes is calculated by recasting income before income taxes to include the items involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the items. The Company continues to calculate the adjusted income tax provision using the AETR method.

(2) Adjusted earnings per share is calculated using diluted shares whereas Net loss is calculated using basic shares. There was no impact to the calculation of adjusted earnings per share as a result of this for the nine months ended March 31, 2023 and April 1, 2022, respectively.

Free cash flow, a non-GAAP measure for reporting cash flow, is defined as cash provided by operating activities less capital expenditures for property and equipment, which includes capitalized software development costs. We believe free cash flow provides investors with an important perspective on cash available for investments and acquisitions after making capital investments required to support ongoing business operations and long-term value creation. We believe that trends in our free cash flow can be valuable indicators of our operating performance and liquidity.

Free cash flow is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenditures similar to the free cash flow adjustment described above, and investors should not infer from our presentation of this non-GAAP financial measure that these expenditures reflect all of our obligations which require cash.

The following table reconciles cash (used in) provided by operating activities, the most directly comparable GAAP financial measure, to free cash flow:

	Third Quarters Ended		Nine Months Ended	
(In thousands)	**March 31, 2023**	**April 1, 2022**	**March 31, 2023**	**April 1, 2022**
Net cash (used in) provided by operating activities	$ (3,217)	$ (4,252)	$ (33,864)	$ 566
Purchase of property and equipment	(9,446)	(6,072)	(29,950)	(19,476)
Free cash flow	$ (12,663)	$ (10,324)	$ (63,814)	$ (18,910)

Organic revenue and acquired revenue are non-GAAP measures for reporting the financial performance of our business. We believe this information provides investors with insight as to our ongoing business performance. Organic revenue represents total company revenue excluding net revenue from acquired companies for the first four full quarters since the entities’ acquisition date (which excludes intercompany transactions). Acquired revenue represents revenue from acquired companies for the first four full quarters since the entities' acquisition date (which excludes intercompany transactions). After the completion of four full fiscal quarters, acquired revenue is treated as organic for current and comparable historical periods.

The following tables reconcile the most directly comparable GAAP financial measure to the non-GAAP financial measure for the third quarters and nine months ended March 31, 2023 and April 1, 2022, respectively:

(In thousands)	**March 31, 2023**	**As a % of Total Net Revenue**	**April 1, 2022**	**As a % of Total Net Revenue**	**$ Change**	**% Change**
Organic revenue	$ 263,479	100 %	$ 253,075	100 %	$ 10,404	4 %
Acquired revenue	—	— %	—	— %	—	100 %
Total revenues	$ 263,479	100 %	$ 253,075	100 %	$ 10,404	4 %

(In thousands)	**March 31, 2023**	**As a % of Total Net Revenue**	**April 1, 2022**	**As a % of Total Net Revenue**	**$ Change**	**% Char**
Organic revenue	$ 695,578	97 %	$ 692,424	99 %	$ 3,154	
Acquired revenue	25,068	3 %	6,044	1 %	19,024	[illegible]
Total revenues	$ 720,646	100 %	$ 698,468	100 %	$ 22,178	

Recently Issued Accounting Pronouncements

See Note B to our consolidated financial statements (under the caption "Recently Issued Accounting Pronouncements").

Recently Adopted Accounting Pronouncements

See Note B to our consolidated financial statements (under the caption "Recently Adopted Accounting Pronouncements").

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our exposure to market risk from July 1, 2022 to March 31, 2023.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and interim Chief Financial Officer (our principal executive officer and principal financial officer, respectively), regarding the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and interim Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2023. We continue to review our disclosure controls and procedures and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our Company's business. 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.

(b) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to litigation, claims, investigations and audits arising from time to time in the ordinary course of our business. Although legal proceedings are inherently unpredictable, we believe that we have valid defenses with respect to those matters currently pending against us and intend to defend ourself vigorously. The outcome of these matters, individually and in the aggregate, is not expected to have a material impact on our cash flows, results of operations, or financial position.

In June 2021, Embedded Reps of America, LLC (“ERA”), a former sales representative, and James Mazzola, a principal of ERA, filed for binding arbitration related to the termination of ERA’s sales representative agreement raising multiple claims that aggregate to approximately $9 million in direct damages, with treble damages requested on a number of those claims. ERA was a sales representative of Themis when Themis was acquired by Mercury. The sales representative agreement provided for termination by either party upon 30 days written notice with ERA entitled to commissions for orders obtained by ERA with product shipment occurring prior to termination. We responded to the complaint in July 2021. An arbitration proceeding was held during September 2022, with final motions in October 2022 and oral arguments in November 2022. The arbitrator issued its final ruling in January 2023, awarding ERA less than $0.1 million in damages and fees.

In December 2021, counsel for National Technical Systems, Inc. (“NTS”) sent us an environmental demand letter pursuant to Massachusetts General Laws Chapter 21E, Section 4A, and CERCLA 42 U.S.C. Section 9601, related to a site that NTS formerly owned at 533 Main Street, Acton, Massachusetts. NTS received a Notice of Responsibility from the Massachusetts Department of Environmental Protection (“MassDEP”) alleging trichloroethene, freon and 1,4-dioxane contamination in the groundwater emanating from NTS’s former site. NTS alleges in its demand letter that the operations of a predecessor company to Mercury which was acquired in our acquisition of the Microsemi carve-out business that once owned and operated a facility at 531 Main Street, Acton, Massachusetts contributed to the groundwater contamination. NTS is seeking payment from us of NTS’s costs for any required environmental remediation. In April 2022, we engaged in a meet and confer session with NTS pursuant to Massachusetts General Laws Chapter 21E, Section 4A to discuss the status of the environmental review performed by NTS and its licensed site professional. In addition, in November 2021, we responded to a request for information from MassDEP regarding the detection of PFAS (per- and polyfluoroakyl substances) in the Acton, Massachusetts Water District’s Conant public water supply wells near the former facility at 531 Main Street, Acton, Massachusetts at a level above the standard that MassDEP published for PFAS in October 2020. It is too early to determine what responsibility, if any, we may have for these matters.

ITEM 1A. RISK FACTORS

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Item 1A (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended July 1, 2022. There have been no changes from the factors disclosed in our 2022 Annual Report on Form 10-K filed on August 16, 2022, although we may disclose changes to such factors from time to time in our future filings with the Securities and Exchange Commission.

ITEM 6. EXHIBITS

The following Exhibits are filed or furnished, as applicable, herewith:

31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	eXtensible Business Reporting Language (XBRL) Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

+ Furnished herewith. This certificate shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

MERCURY SYSTEMS, INC.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Andover, Massachusetts, on May 9, 2023.

MERCURY SYSTEMS, INC.

By:	/S/ MICHELLE M. MCCARTHY
	Michelle M. McCarthy
	Senior Vice President,
	Chief Accounting Officer, Chief Financial Officer (interim) and Treasurer (interim)

EXHIBIT 31.1

CERTIFICATION

I, Mark Aslett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mercury Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ MARK ASLETT

Mark Aslett

PRESIDENT AND CHIEF EXECUTIVE OFFICER
[PRINCIPAL EXECUTIVE OFFICER]

Date: May 9, 2023

EXHIBIT 31.2

CERTIFICATION

I, Michelle McCarthy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mercury Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ MICHELLE M. MCCARTHY

Michelle M. McCarthy
SENIOR VICE PRESIDENT,
CHIEF ACCOUNTING OFFICER, CHIEF FINANCIAL OFFICER (INTERIM), AND TREASURER (INTERIM)
[PRINCIPAL FINANCIAL OFFICER]

Date: May 9, 2023

EXHIBIT 32.1

Mercury Systems, Inc.

Certification Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant To
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Mercury Systems, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2023 as filed with the Securities and Exchange Commission (the "Report"), we, Mark Aslett, President and Chief Executive Officer of the Company, and Michelle McCarthy, Senior Vice President, Interim Chief Financial Officer, and Treasurer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that to our knowledge the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2023

/s/ MARK ASLETT

Mark Aslett
PRESIDENT AND CHIEF EXECUTIVE OFFICER

/s/ MICHELLE M. MCCARTHY

Michelle M. McCarthy
SENIOR VICE PRESIDENT,
CHIEF ACCOUNTING OFFICER, CHIEF FINANCIAL OFFICER (INTERIM), AND TREASURER (INTERIM)