



April 28, 2015

## Mercury Systems Reports Third Quarter Fiscal 2015 Results, Raises Guidance for Balance of Year

*Financial highlights include:*

***Revenue up 11.6%, Adjusted EBITDA up 48% year-over-year  
Income from continuing operations of \$4.7 million, \$0.14 per share  
Backlog up 29% year-over-year***

***Company expects to achieve target business model for full-year fiscal 2015***

**CHELMSFORD, Mass. -- April 28, 2015** (GLOBE NEWSWIRE) -- Mercury Systems, Inc. (Nasdaq:MRCY) ([www.mrcy.com](http://www.mrcy.com)), a leading high-tech commercial provider of more affordable secure and sensor processing subsystems powering today's critical defense and intelligence applications, reported operating results for its third fiscal quarter, which ended March 31, 2015.

### Third Quarter Fiscal 2015 Results

Third quarter fiscal 2015 revenues were \$59.6 million, an increase of \$6.2 million, or 11.6%, compared to the third quarter of fiscal 2014, as revenues from defense customers increased \$5.0 million and revenues from commercial customers increased \$1.2 million.

GAAP income from continuing operations for the third quarter of fiscal 2015 was \$4.7 million, or \$0.14 per share, compared to GAAP loss from continuing operations of (\$0.3) million, or (\$0.01) per share, for the prior year's third quarter. Third quarter fiscal 2015 GAAP income per share from continuing operations included less than \$0.01 of restructuring and other charges and \$0.03 for amortization of intangible assets. Third quarter fiscal 2014 GAAP loss per share from continuing operations included \$0.07 of restructuring and other charges and \$0.04 for amortization of intangible assets.

Third quarter fiscal 2015 GAAP income from continuing operations included approximately \$1.5 million in tax expense, \$1.5 million in depreciation expense, \$1.7 million in amortization of intangible assets, \$0.2 million in acquisition and financing costs and \$1.8 million in stock-based compensation costs. Third quarter fiscal 2015 adjusted EBITDA (income from continuing operations before interest income and expense, income taxes, depreciation, amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition and financing costs, fair value adjustments from purchase accounting, and stock-based compensation costs) was \$11.5 million, increasing \$3.7 million over the prior year's third quarter.

Total GAAP net income for the third quarter of fiscal 2015, which includes the impact of discontinued operations, was \$3.7 million, or \$0.11 per share, compared to total GAAP net loss of (\$0.6) million, or (\$0.02) per share, for the prior year's third quarter. GAAP loss from discontinued operations, net of income taxes, for the third quarter of fiscal 2015 was (\$1.0) million, or (\$0.03) per share, compared to GAAP loss from discontinued operations, net of income taxes, of (\$0.3) million, or (\$0.01) per share, for the prior year's third quarter.

Cash flows from operating activities were a net inflow of \$9.1 million in the third quarter of fiscal 2015, compared to a net inflow of \$2.2 million in the third quarter of fiscal 2014. Free cash flow, defined as cash flow from operating activities less capital expenditures, was a net inflow of \$7.8 million in the third quarter of fiscal 2015, compared to a net inflow of \$1.1 million in the third quarter of fiscal 2014. Cash and cash equivalents as of March 31, 2015 were \$66.5 million, an increase of \$20.8 million year-over-year.

The Company's former Mercury Intelligence Systems (MIS) subsidiary was classified for accounting purposes as a discontinued operation in the fourth quarter of fiscal 2014 based on the Company's strategic decision to divest that business. The sale of MIS was concluded in January 2015, and the financial results of MIS are excluded from the Company's reported financial results from continuing operations for all periods referenced in this release.

### Management Comments

"The third fiscal quarter once again showed good momentum at Mercury as the top and bottom lines continued their steady expansion," said Mark Aslett, President and CEO, Mercury Systems. "Our results from continuing operations for the third fiscal quarter were significantly better than the prior year, as revenue increased nearly 12% and adjusted EBITDA climbed 48%. The Company's GAAP income from continuing operations and cash flow from operations both grew materially."

"Mercury's double-digit revenue growth and dramatic expansion of adjusted EBITDA and income from operations, coupled with our very strong backlog, provide excellent momentum entering the last quarter of our fiscal year. With our operating leverage continuing to yield strong results, we remain confident in our ability to achieve our target business model for the full fiscal year 2015," Aslett concluded.

## Backlog

Mercury's total backlog relating to continuing operations at March 31, 2015 was \$189.9 million, a \$42.3 million increase over March 31, 2014. Of the March 31, 2015 total backlog, \$150.5 million represents orders expected to be shipped over the next 12 months. The defense backlog at March 31, 2015 was \$180.0 million, a \$46.3 million increase from March 31, 2014.

Bookings for the third quarter of fiscal 2015 were \$57.0 million, a 23% decrease compared to the extremely strong third quarter of fiscal 2014. The total book-to-bill ratio was approximately 1.0 for the third quarter of fiscal 2015, compared to approximately 1.4 for the third quarter of fiscal 2014. Bookings for the first nine months of fiscal 2015 were \$186.1 million, a 12% increase compared to the \$166.6 million of bookings for the first nine months of fiscal 2014. The total book-to-bill ratio was 1.1 for the first nine months of each of fiscal 2015 and fiscal 2014.

## Revenues by Reporting Segment

Mercury Commercial Electronics (MCE) — Revenues for the third quarter of fiscal 2015 for MCE were \$55.1 million, representing an increase of \$7.5 million, or 16%, from the third quarter of fiscal 2014. The increase in revenues compared to last year's third quarter related primarily to higher Patriot, F-35, and SEWIP program revenue. Approximately 90% of MCE revenues for the third quarter of fiscal 2015 related to defense business, as compared to approximately 91% in the third quarter of fiscal 2014.

Mercury Defense Systems (MDS) — Revenues in the third quarter of fiscal 2015 from MDS were \$6.7 million, a decrease of \$2.2 million from the third quarter of fiscal 2014.

The revenues by reporting segment do not include adjustments to eliminate inter-company revenues of \$2.2 million included in those reporting segments in the third quarter of fiscal 2015 and \$3.1 million in the third quarter of fiscal 2014.

## Business Outlook

*This section presents our current expectations and estimates, given current visibility, on our business outlook for the current fiscal quarter and fiscal year 2015. It is possible that actual performance will differ materially from the estimates given, either on the upside or on the downside. Investors should consider all of the risks with respect to these estimates, including those listed in the Safe Harbor Statement below and in our periodic filings with the U.S. Securities and Exchange Commission, and make themselves aware of how these risks may impact our actual performance.*

For the fourth quarter of fiscal 2015, revenues are currently forecasted to be in the range of \$62 million to \$64 million. At this range, GAAP income per share from continuing operations is expected to be in the range of \$0.10 to \$0.13 per share. Projected GAAP income per share from continuing operations includes \$0.03 per share of amortization of intangible assets and \$0.01 per share of restructuring and other charges.

Adjusted EBITDA for the fourth quarter of fiscal 2015 is expected to be in the range of \$11.7 million to \$13.2 million.

Revenues for the full fiscal year 2015 are projected to be in the range of \$233.0 million to \$235.0 million, representing 12% to 13% revenue growth relative to fiscal 2014. At this range, GAAP income per share from continuing operations is forecasted to be higher than our prior guidance due to the Company's strong year-to-date performance, and is now projected to be in the range of \$0.35 to \$0.38 per share. Projected fiscal 2015 GAAP income per share from continuing operations includes \$0.06 per share of restructuring and other charges and \$0.13 per share for amortization of intangible assets.

Adjusted EBITDA for fiscal 2015 is also forecasted to be higher than our previous guidance, and is currently expected to be in the range of \$42.0 million to \$43.5 million.

## Recent Highlights

March - Mercury Systems announced that its Mercury Defense Systems subsidiary received \$2 million in follow-on orders to deliver advanced Digital RF Memory (DRFM) jammers to the U.S. Navy. The orders were received in the Company's fiscal 2015 third quarter and are part of a firm-fixed-price, indefinite delivery/indefinite quantity (IDIQ) time and material contract award issued in 2010. They are expected to be shipped by the end of the Company's fiscal 2016 third quarter.

March - Mercury announced the rugged OpenVPX™ Ensemble™ LDS3506 processing module that seamlessly integrates the Intel® Xeon® processor D system-on-a-chip (SoC) product family (formerly codenamed "Broadwell DE") with Xilinx's powerful Ultrascale™ FPGA in a SWaP-constrained 3U package. This dense union of best available commercial-item general processing and FPGA resources produces a highly versatile, affordable and interoperable building block for embedded, high-performance computing applications with additional low-latency, refresh and mission capabilities.

March - Mercury announced it received \$3.1 million in follow-on orders from a leading defense prime contractor for radar subsystems for a missile defense application. The orders were booked in the Company's fiscal 2015 third quarter and are expected to be shipped over the next several quarters.

February - Mercury announced the opening of the second of four planned, world-class Mercury Innovation Centers - this one located at its corporate headquarters in Chelmsford, Mass. The first Mercury Innovation Center opened on April 18, 2014, at the Company's Advanced Microelectronics Center (AMC) in Hudson, N.H.

February - Mercury announced it received \$3.2 million in follow-on orders from a leading defense prime contractor for digital signal processing modules for an unmanned airborne synthetic aperture radar (SAR) application. The orders were booked in the Company's fiscal 2015 third quarter and are expected to be shipped over the next several quarters.

January - Mercury announced it received a \$4.3 million follow-on order from a leading defense prime contractor for high performance signal processing subsystems for a ship-borne radar application. The order was booked in the Company's fiscal 2015 second quarter and is expected to be shipped by its fiscal 2016 third quarter.

January - Mercury announced it received a \$2.3 million order from a leading defense prime contractor for high-performance digital signal processing modules for use in a signals intelligence (SIGINT) application. The order was booked in the Company's fiscal 2015 second quarter and was shipped by its fiscal 2015 third quarter.

### **Conference Call Information**

Mercury will host a conference call and simultaneous webcast on Tuesday, April 28, 2015 at 5:00 p.m. ET to discuss the third quarter fiscal 2015 results and review its financial and business outlook going forward.

To join the conference call, dial (877) 303-6977 in the USA and Canada, or (760) 298-5079 in all other countries. Please call five to ten minutes prior to the scheduled start time. The live audio webcast can be accessed from the 'Events and Presentations' page of Mercury's website at [www.mrcy.com/investor](http://www.mrcy.com/investor).

A replay of the webcast will be available two hours after the call and archived on the same web page for six months.

### **Use of Non-GAAP (Generally Accepted Accounting Principles) Financial Measures**

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, the Company provides adjusted EBITDA and free cash flow, which are non-GAAP financial measures. Adjusted EBITDA excludes certain non-cash and other specified charges. Free cash flow is defined as cash flow from operating activities less capital expenditures. The Company believes these non-GAAP financial measures are useful to help investors understand its past financial performance and prospects for the future. However, the presentation of adjusted EBITDA and free cash flow is not meant to be considered in isolation or as a substitute for financial information provided in accordance with GAAP. Management believes the adjusted EBITDA and free cash flow financial measures assist in providing a more complete understanding of the Company's underlying operational results and trends, and management uses these measures along with the corresponding GAAP financial measures to manage the Company's business, to evaluate its performance compared to prior periods and the marketplace, and to establish operational goals. A reconciliation of GAAP to non-GAAP financial results discussed in this press release is contained in the attached exhibits.

### **Mercury Systems - Innovation That Matters™**

Mercury Systems (Nasdaq:MRCY) is the better alternative for affordable, secure and sensor processing subsystems designed and made in the USA. Optimized for program and mission success, Mercury's solutions power a wide variety of critical defense and intelligence applications on more than 300 programs such as Aegis, Patriot, SEWIP, F-35 and Gorgon Stare. Headquartered in Chelmsford, Massachusetts, Mercury Systems is a high-tech commercial company purpose-built to meet rapidly evolving next-generation defense electronics challenges. To learn more, visit [www.mrcy.com](http://www.mrcy.com).

### **Forward-Looking Safe Harbor Statement**

This press release contains certain forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including those relating to fiscal 2015 business performance and beyond and the Company's plans for

growth and improvement in profitability and cash flow. 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 continued geopolitical unrest and regional conflicts, competition, 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, market acceptance of the Company's products, shortages in components, production delays due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions, divestitures and restructurings, or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, changes to export regulations, increases in tax rates, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, 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 are discussed in the Company's filings with the U.S. Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2014. The Company cautions readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

Mercury Systems and Innovation That Matters are trademarks of Mercury Systems, Inc. Other product and company names mentioned may be trademarks and/or registered trademarks of their respective holders.

## MERCURY SYSTEMS, INC.

### UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands)

March 31, June 30,  
2015 2014

#### Assets

##### Current assets:

Cash and cash equivalents	\$ 66,520	\$ 47,287
Accounts receivable, net	47,552	37,625
Unbilled receivables and costs in excess of billings	20,475	22,036
Inventory	32,526	31,655
Deferred income taxes	13,044	15,216
Prepaid income taxes	3,981	1,481
Prepaid expenses and other current assets	3,661	3,631
Current assets of discontinued operations	--	1,374
Total current assets	187,759	160,305

Restricted cash	264	265
Property and equipment, net	12,391	14,144
Goodwill	168,146	168,146
Intangible assets, net	19,739	25,006
Other non-current assets	941	987
Non-current assets of discontinued operations	--	4,859
Total assets	<u>\$ 389,240</u>	<u>\$ 373,712</u>

#### Liabilities and Shareholders' Equity

##### Current liabilities:

Accounts payable	\$ 14,387	\$ 7,054
Accrued expenses	9,190	8,377
Accrued compensation	9,062	9,983

Deferred revenues and customer advances	8,094	5,898
Current liabilities of discontinued operations	<u>--</u>	<u>1,618</u>
Total current liabilities	40,733	32,930
Deferred gain on sale-leaseback	1,218	2,086
Deferred income taxes	3,174	5,911
Income taxes payable	2,255	3,154
Other non-current liabilities	1,195	1,666
Non-current liabilities of discontinued operations	<u>--</u>	<u>818</u>
Total liabilities	48,575	46,565
Shareholders' equity:		
Common stock	324	312
Additional paid-in capital	251,000	241,725
Retained earnings	88,538	84,099
Accumulated other comprehensive income	<u>803</u>	<u>1,011</u>
Total shareholders' equity	<u>340,665</u>	<u>327,147</u>
Total liabilities and shareholders' equity	<u>\$ 389,240</u>	<u>\$ 373,712</u>

**MERCURY SYSTEMS, INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Net revenues	\$ 59,578	\$ 53,393	\$ 170,728	\$ 155,051
Cost of revenues (1)	<u>31,660</u>	<u>29,017</u>	<u>91,776</u>	<u>84,788</u>
Gross margin	27,918	24,376	78,952	70,263
Operating expenses:				
Selling, general and administrative (1)	11,842	12,363	36,809	40,628
Research and development (1)	8,115	8,166	23,961	27,620
Amortization of intangible assets	1,744	1,777	5,268	5,565
Restructuring and other charges	27	3,477	2,457	3,559
Acquisition costs and other related expenses	<u>33</u>	<u>--</u>	<u>33</u>	<u>--</u>
Total operating expenses	21,761	25,783	68,528	77,372
Income (loss) from operations	6,157	(1,407)	10,424	(7,109)
Interest income	6	2	13	6
Interest expense	(7)	(11)	(23)	(37)
Other income, net	<u>7</u>	<u>337</u>	<u>399</u>	<u>1,209</u>
Income (loss) from continuing operations before income taxes	6,163	(1,079)	10,813	(5,931)
Tax provision (benefit)	<u>1,469</u>	<u>(809)</u>	<u>2,516</u>	<u>(2,570)</u>
Income (loss) from continuing operations	4,694	(270)	8,297	(3,361)

Loss from discontinued operations, net of tax	<u>(1,019)</u>	<u>(308)</u>	<u>(3,858)</u>	<u>(518)</u>
Net income (loss)	<u>\$ 3,675</u>	<u>\$ (578)</u>	<u>\$ 4,439</u>	<u>\$ (3,879)</u>
Basic net earnings (loss) per share:				
Continuing operations	\$ 0.14	\$ (0.01)	\$ 0.26	\$ (0.11)
Loss from discontinued operations	<u>(0.03)</u>	<u>(0.01)</u>	<u>(0.12)</u>	<u>(0.02)</u>
Basic net earnings (loss) per share:	<u>\$ 0.11</u>	<u>\$ (0.02)</u>	<u>\$ 0.14</u>	<u>\$ (0.13)</u>
Diluted net earnings (loss) per share:				
Continuing operations	\$ 0.14	\$ (0.01)	\$ 0.25	\$ (0.11)
Loss from discontinued operations	<u>(0.03)</u>	<u>(0.01)</u>	<u>(0.12)</u>	<u>(0.02)</u>
Diluted net earnings (loss) per share:	<u>\$ 0.11</u>	<u>\$ (0.02)</u>	<u>\$ 0.13</u>	<u>\$ (0.13)</u>
Weighted-average shares outstanding:				
Basic	<u>32,298</u>	<u>31,156</u>	<u>32,001</u>	<u>30,932</u>
Diluted	<u>33,233</u>	<u>31,156</u>	<u>32,953</u>	<u>30,932</u>

(1) Includes stock-based compensation expense, allocated as follows:

Cost of revenues	\$ 110	\$ 104	\$ 375	\$ 503
Selling, general and administrative	\$ 1,446	\$ 1,383	\$ 5,190	\$ 5,701
Research and development	\$ 314	\$ 179	\$ 1,111	\$ 1,066

## MERCURY SYSTEMS, INC.

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Cash flows from operating activities:				
Net income (loss)	\$ 3,675	\$ (578)	\$ 4,439	\$ (3,879)
Depreciation and amortization	3,296	3,864	10,446	11,892
Other non-cash items, net	3,256	3,400	8,055	1,533
Changes in operating assets and liabilities	<u>(1,114)</u>	<u>(4,485)</u>	<u>(3,420)</u>	<u>2,186</u>
Net cash provided by operating activities	<u>9,113</u>	<u>2,201</u>	<u>19,520</u>	<u>11,732</u>
Cash flows from investing activities:				
Purchases of property and equipment	(1,344)	(1,133)	(3,467)	(5,067)
Increase (decrease) in other investing activities	<u>885</u>	<u>--</u>	<u>886</u>	<u>(300)</u>
Net cash used in investing activities	<u>(459)</u>	<u>(1,133)</u>	<u>(2,581)</u>	<u>(5,367)</u>
Cash flows from financing activities:				
Proceeds from employee stock plans	736	292	2,048	872
Payments of capital lease obligations	(161)	(221)	(481)	(564)
Excess tax benefits from stock-based compensation	<u>298</u>	<u>13</u>	<u>834</u>	<u>16</u>

Net cash provided by financing activities	<u>873</u>	<u>84</u>	<u>2,401</u>	<u>324</u>
Effect of exchange rate changes on cash and cash equivalents	<u>6</u>	<u>23</u>	<u>(107)</u>	<u>(105)</u>
Net increase in cash and cash equivalents	9,533	1,175	19,233	6,584
Cash and cash equivalents at beginning of period	<u>56,987</u>	<u>44,535</u>	<u>47,287</u>	<u>39,126</u>
Cash and cash equivalents at end of period	<u>\$ 66,520</u>	<u>\$ 45,710</u>	<u>\$ 66,520</u>	<u>\$ 45,710</u>

**UNAUDITED SUPPLEMENTAL INFORMATION  
RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

(In thousands)

Adjusted EBITDA, a non-GAAP measure for reporting financial performance, excludes the impact of certain items and, therefore, has not been calculated in accordance with GAAP. Management believes that exclusion of these items assists in providing a more complete understanding of the Company's underlying continuing operations results and trends, and management uses these measures along with the corresponding GAAP financial measures to manage the Company's business, to evaluate its performance compared to prior periods and the marketplace, and to establish operational goals. The adjustments to calculate this non-GAAP financial measure, and the basis for such adjustments, are outlined below:

*Interest income and expense.* The Company receives interest income on investments and incurs interest expense on loans, capital leases and other financing arrangements. These amounts may vary from period to period due to changes in cash and debt balances and interest rates driven by general market conditions or other circumstances outside of the normal course of Mercury's operations.

*Income taxes.* The Company's GAAP tax expense can fluctuate materially from period to period due to tax adjustments that are not directly related to underlying operating performance or to the current period of operations.

*Depreciation.* The Company incurs depreciation expense related to capital assets purchased to support the ongoing operations of the business. These assets are recorded at cost or fair value and are depreciated using the straight-line method over the useful life of the asset. Purchases of such assets may vary significantly from period to period and without any direct correlation to underlying operating performance.

*Amortization of intangible assets.* The Company incurs amortization of intangibles related to various acquisitions it has made and license agreements. These intangible assets are valued at the time of acquisition, are amortized over a period of several years after acquisition and generally cannot be changed or influenced by management after acquisition.

*Restructuring and other charges.* The Company incurs restructuring and other charges in connection with management's decisions to undertake certain actions to realign operating expenses through workforce reductions and the closure of certain Company facilities, businesses and product lines. Management believes this item is outside the normal operations of the Company's business and is not indicative of ongoing operating results.

*Impairment of long-lived assets.* The Company incurs impairment charges of long-lived assets based on events that may or may not be within the control of management. Management believes these items are outside the normal operations of the Company's business and are not indicative of ongoing operating results.

*Acquisition and financing costs.* The Company incurs transaction costs related to acquisition and potential acquisition opportunities, such as legal and accounting fees and expenses. Although we may incur such third-party costs and other related charges and adjustments, it is not indicative that any transaction will be consummated. Additionally, the Company incurs non-interest financing, bank and other fees associated with obtaining and maintaining its financing facilities. Management believes these items are outside the normal operations of the Company's business and are not indicative of ongoing operating results.

*Fair value adjustments from purchase accounting.* As a result of applying purchase accounting rules to acquired assets and liabilities, certain fair value adjustments are recorded in the opening balance sheet of acquired companies. These adjustments are then reflected in the Company's income statements in periods subsequent to the acquisition. In addition, the impact of any changes to originally recorded contingent consideration amounts are reflected in the income statements in the period of the change. Management believes these items are outside the normal operations of the Company and are not indicative of ongoing operating results.

*Stock-based compensation expense.* The Company incurs expense related to stock-based compensation included in its GAAP presentation of cost of revenues, selling, general and administrative expense and research and development expense. Although stock-based compensation is an expense of the Company and viewed as a form of compensation, these expenses vary in amount from period to period, and are affected by market forces that are difficult to predict and are not within the control of management, such as the market price and volatility of the Company's shares, risk-free interest rates and the expected term and forfeiture rates of the awards. Management believes that exclusion of these expenses allows comparisons of operating results to those of other companies, both public, private or foreign, that disclose non-GAAP financial measures that exclude stock-based compensation.

Mercury uses adjusted EBITDA as an important indicator of the operating performance of its business. Management excludes the above-described items from its internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to the Company's 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 the Company's operations, and allocating resources to various initiatives and operational requirements. The Company believes that adjusted EBITDA permits a comparative assessment of its operating performance, relative to its performance based on its GAAP results, while isolating the effects of charges that may vary from period to period without any correlation to underlying operating performance. The Company believes 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 its financial and operational decision-making. The Company believes that trends in its adjusted EBITDA are valuable indicators of its 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. The Company expects to continue to incur expenses similar to the adjusted EBITDA financial adjustments described above, and investors should not infer from the Company's presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring.

The following table reconciles the most directly comparable GAAP financial measure to the non-GAAP financial measure.

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Income (loss) from continuing operations	\$ 4,694	\$ (270)	\$ 8,297	\$ (3,361)
Interest expense, net	1	9	10	31
Tax provision (benefit)	1,469	(809)	2,516	(2,570)
Depreciation	1,510	1,923	4,800	5,839
Amortization of intangible assets	1,744	1,777	5,268	5,565
Restructuring and other charges	27	3,477	2,457	3,559
Acquisition and financing costs	200	--	200	--
Stock-based compensation expense	<u>1,870</u>	<u>1,666</u>	<u>6,676</u>	<u>7,270</u>
Adjusted EBITDA	<u>\$ 11,515</u>	<u>\$ 7,773</u>	<u>\$ 30,224</u>	<u>\$ 16,333</u>

Free cash flow, a non-GAAP measure for reporting cash flow, is defined as cash provided by operating activities less capital expenditures and, therefore, has not been calculated in accordance with GAAP. Management believes free cash flow provides investors with an important perspective on cash available for investment and acquisitions after making capital investments required to support ongoing business operations and long-term value creation. The Company believes that trends in its free cash flow are valuable indicators of its 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. The Company expects to continue to incur expenditures similar to the free cash flow financial adjustment described above, and investors should not infer from the Company's presentation of this non-GAAP financial measure that these expenditures reflect all of the Company's obligations which require cash.

The following table reconciles the most directly comparable GAAP financial measure to the non-GAAP financial measure.

	Three Months Ended	Nine Months Ended
	March 31,	March 31,



	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Cash flows from operations	\$ 9,113	\$ 2,201	\$ 19,520	\$ 11,732
Capital expenditures	<u>(1,344)</u>	<u>(1,133)</u>	<u>(3,467)</u>	<u>(5,067)</u>
Free cash flow	<u>\$ 7,769</u>	<u>\$ 1,068</u>	<u>\$ 16,053</u>	<u>\$ 6,665</u>

**MERCURY SYSTEMS, INC.**

**RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE**

Quarter Ending June 30, 2015

(In thousands, except per share data)

The Company defines adjusted EBITDA as income from continuing operations before interest income and expense, income taxes, depreciation, amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition and financing costs, fair value adjustments from purchase accounting, and stock-based compensation costs.

The following table reconciles the adjusted EBITDA financial measure to its most directly comparable GAAP measure:

	<u>Range</u>	
	<u>Low</u>	<u>High</u>
GAAP expectation --- Earnings per share from continuing operations	<u>\$ 0.10</u>	<u>\$ 0.13</u>
GAAP expectation --- Income from continuing operations	\$ 3,400	\$ 4,300
Adjust for:		
Interest expense, net	--	--
Income taxes	2,100	2,700
Depreciation	1,600	1,600
Amortization of intangible assets	1,700	1,700
Restructuring and other charges	700	700
Acquisition and financing costs	200	200
Stock-based compensation expense	<u>2,000</u>	<u>2,000</u>
Adjusted EBITDA expectation	<u>\$ 11,700</u>	<u>\$ 13,200</u>

**MERCURY SYSTEMS, INC.**

**RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE**

Year Ending June 30, 2015

(In thousands, except per share data)

The Company defines adjusted EBITDA as income from continuing operations before interest income and expense, income taxes, depreciation, amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition and financing costs, fair value adjustments from purchase accounting, and stock-based compensation costs.

The following table reconciles the adjusted EBITDA financial measure to its most directly comparable GAAP measure:

	<u>Range</u>	
	<u>Low</u>	<u>High</u>
GAAP expectation --- Earnings per share from continuing operations	<u>\$ 0.35</u>	<u>\$ 0.38</u>

GAAP expectation --- Income from continuing operations	\$ 11,600	\$ 12,500
Adjust for:		
Interest expense, net	--	--
Income taxes	4,800	5,400
Depreciation	6,400	6,400
Amortization of intangible assets	7,000	7,000
Restructuring and other charges	3,100	3,100
Acquisition and financing costs	400	400
Stock-based compensation expense	<u>8,700</u>	<u>8,700</u>
Adjusted EBITDA expectation	<u>\$ 42,000</u>	<u>\$ 43,500</u>

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