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 December 27, 2019
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)

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

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	The Nasdaq Stock Market

Shares of Common Stock outstanding as of January 31, 2020 55,588,707 shares

MERCURY SYSTEMS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 27, 2019	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 182,037	$ 257,932
Accounts receivable, net of allowance for doubtful accounts of $1,070 and $1,228 at December 27, 2019 and June 30, 2019, respectively	132,072	118,832
Unbilled receivables and costs in excess of billings	61,302	57,387
Inventory	153,642	137,112
Prepaid income taxes	5,454	90
Prepaid expenses and other current assets	10,602	10,819
Total current assets	545,109	582,172
Property and equipment, net	72,696	60,001
Goodwill	614,648	562,146
Intangible assets, net	224,507	206,124
Operating lease right-of-use assets	49,826	—
Other non-current assets	5,834	6,534
Total assets	$ 1,512,620	$ 1,416,977
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 35,988	$ 39,030
Accrued expenses	23,906	18,897
Accrued compensation	31,372	28,814
Deferred revenues and customer advances	16,618	11,291
Total current liabilities	107,884	98,032
Deferred income taxes	18,406	17,814
Income taxes payable	1,397	1,273
Operating lease liabilities	55,257	—
Other non-current liabilities	12,620	15,119
Total liabilities	195,564	132,238
Commitments and contingencies (Note M)		
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; 54,557,551 and 54,247,532 shares issued and outstanding at December 27, 2019 and June 30, 2019, respectively	545	542
Additional paid-in capital	1,056,238	1,058,745
Retained earnings	261,666	226,743
Accumulated other comprehensive loss	(1,393)	(1,291)
Total shareholders' equity	1,317,056	1,284,739
Total liabilities and shareholders' equity	$ 1,512,620	$ 1,416,977

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

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

	Second Quarters Ended		Six Months Ended	
	December 27, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Net revenues	$ 193,913	$ 159,089	$ 371,217	$ 303,145
Cost of revenues	105,407	88,202	204,311	170,675
Gross margin	88,506	70,887	166,906	132,470
Operating expenses:				
Selling, general and administrative	32,804	27,819	62,774	52,560
Research and development	24,660	16,192	46,530	31,140
Amortization of intangible assets	7,992	6,939	15,011	14,120
Restructuring and other charges	1,101	23	1,749	527
Acquisition costs and other related expenses	1,124	53	2,541	452
Total operating expenses	67,681	51,026	128,605	98,799
Income from operations	20,825	19,861	38,301	33,671
Interest income	312	71	1,499	137
Interest expense	—	(2,196)	—	(4,455)
Other expense, net	(351)	(870)	(1,785)	(1,879)
Income before income taxes	20,786	16,866	38,015	27,474
Tax provision	5,110	4,483	3,092	7,612
Net income	$ 15,676	$ 12,383	$ 34,923	$ 19,862
Basic net earnings per share	$ 0.29	$ 0.26	$ 0.64	$ 0.42
Diluted net earnings per share	$ 0.29	$ 0.26	$ 0.63	$ 0.42
Weighted-average shares outstanding:				
Basic	54,548	47,189	54,468	47,118
Diluted	55,001	47,705	55,037	47,696
Comprehensive income:				
Net income	$ 15,676	$ 12,383	$ 34,923	$ 19,862
Foreign currency translation adjustments	(192)	205	(117)	(157)
Pension benefit plan, net of tax	8	(15)	15	(30)
Total other comprehensive (loss) income, net of tax	(184)	190	(102)	(187)
Total comprehensive income	$ 15,492	$ 12,573	$ 34,821	$ 19,675

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 Second Quarter Ended December 27, 2019

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders’ Equity
	Shares	Amount				
Balance at September 27, 2019	54,534	$ 545	$ 1,049,952	$ 245,990	$ (1,209)	$ 1,295,278
Issuance of common stock under employee stock incentive plans	29	—	—	—	—	—
Purchase and retirement of common stock	(5)	—	(375)	—	—	(375)
Stock-based compensation	—	—	6,661	—	—	6,661
Net income	—	—	—	15,676	—	15,676
Other comprehensive loss	—	—	—	—	(184)	(184)
Balance at December 27, 2019	54,558	$ 545	$ 1,056,238	$ 261,666	$ (1,393)	$ 1,317,056

For the Second Quarter Ended December 31, 2018

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders’ Equity
	Shares	Amount				
Balance at September 30, 2018	47,169	$ 472	$ 587,788	$ 187,447	$ 914	$ 776,621
Issuance of common stock under employee stock incentive plans	32	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	51	1	1,676	—	—	1,677
Purchase and retirement of common stock	(3)	(1)	(119)	—	—	(120)
Stock-based compensation	—	—	5,325	—	—	5,325
Net income	—	—	—	12,383	—	12,383
Other comprehensive income	—	—	—	—	190	190
Balance at December 31, 2018	47,249	$ 472	$ 594,670	$ 199,830	$ 1,104	$ 796,076

For the Six Months Ended December 27, 2019

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders’ Equity
	Shares	Amount				
Balance at June 30, 2019	54,248	$ 542	$ 1,058,745	$ 226,743	$ (1,291)	$ 1,284,739
Issuance of common stock under employee stock incentive plans	491	5	(2)	—	—	3
Purchase and retirement of common stock	(181)	(2)	(14,935)	—	—	(14,937)
Stock-based compensation	—	—	12,430	—	—	12,430
Net income	—	—	—	34,923	—	34,923
Other comprehensive loss	—	—	—	—	(102)	(102)
Balance at December 27, 2019	54,558	$ 545	$ 1,056,238	$ 261,666	$ (1,393)	$ 1,317,056

For the Six Months Ended December 31, 2018

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders’ Equity
	Shares	Amount				
Balance at June 30, 2018	46,924	$ 469	$ 590,163	$ 179,968	$ 1,291	$ 771,891
Issuance of common stock under employee stock incentive plans	414	4	(4)	—	—	—
Issuance of common stock under employee stock purchase plan	51	1	1,676	—	—	1,677
Purchase and retirement of common stock	(140)	(2)	(6,930)	—	—	(6,932)
Stock-based compensation	—	—	9,765	—	—	9,765
Net income	—	—	—	19,862	—	19,862
Other comprehensive loss	—	—	—	—	(187)	(187)
Balance at December 31, 2018	47,249	$ 472	$ 594,670	$ 199,830	$ 1,104	$ 796,076

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

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

	Six Months Ended	
	December 27, 2019	December 31, 2018
Cash flows from operating activities:		
Net income	$ 34,923	$ 19,862
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	23,928	23,254
Stock-based compensation expense	12,190	9,963
Provision (benefit) for deferred income taxes	593	(1,943)
Other non-cash items	1,255	2,144
Changes in operating assets and liabilities, net of effects of businesses acquired:		
Accounts receivable, unbilled receivables, and costs in excess of billings	(13,512)	(20,845)
Inventory	(5,371)	(9,422)
Prepaid income taxes	(5,356)	2,995
Prepaid expenses and other current assets	1,137	(340)
Other non-current assets	(63)	118
Accounts payable, accrued expenses, and accrued compensation	(425)	7,215
Deferred revenues and customer advances	6,650	9,480
Income taxes payable	(2,803)	1,872
Other non-current liabilities	3,230	977
Net cash provided by operating activities	56,376	45,330
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(96,502)	(45,029)
Purchases of property and equipment	(20,919)	(10,802)
Net cash used in investing activities	(117,421)	(55,831)
Cash flows from financing activities:		
Proceeds from employee stock plans	3	1,677
Purchase and retirement of common stock	(14,937)	(6,932)
Borrowings under credit facilities	—	45,000
Payments of deferred financing and offering costs	—	(1,851)
Net cash (used in) provided by financing activities	(14,934)	37,894
Effect of exchange rate changes on cash and cash equivalents	84	(11)
Net (decrease) increase in cash and cash equivalents	(75,895)	27,382
Cash and cash equivalents at beginning of period	257,932	66,521
Cash and cash equivalents at end of period	$ 182,037	$ 93,903
Cash paid during the period for:		
Interest	$ —	$ 5,648
Income taxes	$ 10,454	$ 4,308

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

MERCURY SYSTEMS, INC.

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

A. Description of Business

Mercury Systems, Inc. (the "Company" or "Mercury") is the leader in making trusted, secure mission-critical technologies profoundly more accessible to aerospace and defense. Operating at the intersection of high-tech and defense, Mercury specializes in engineering, adapting and manufacturing purpose-built solutions to meet current and emerging high-tech needs. Mercury's innovative solutions power more than 300 mission-critical aerospace, commercial aviation, defense, security and intelligence programs, including Aegis, Patriot, LTAMDS, SEWIP, F-35, JLTV, Global Hawk and Stormbreaker, delivering Innovation That Matters®.

Headquartered in Andover, MA, Mercury has pioneered a transformational defense electronics business model specifically designed to provide end-users with trusted and secure leading-edge technology, affordably and with significantly shorter lead times. Mercury's relationships with key commercial processing technology providers, such as Intel, NVIDIA and Xilinx, coupled with its commitment to open standards architecture ("OSA"), allow it to develop products that are optimized for customer success and upgradeability. A proven portfolio of advanced capability, a demonstrated model for accelerated development and a commitment to its cultures and values, uniquely position Mercury to deliver Innovation That Matters® from chip-scale to system-scale.

Investors and others should note that the Company announces material financial information using its website (www.mrcy.com), 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 June 30, 2019 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on August 15, 2019. The results for the second quarter and six months ended December 27, 2019 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.

Effective July 1, 2019, the Company's fiscal year has changed to the 52-week or 53-week period ending on the Friday closest to the last day in June. All references to the second quarter of fiscal 2020 are to the quarter ending December 27, 2019. There were 13-weeks during the second quarters ended December 27, 2019 and December 31, 2018, respectively. There were approximately 26-weeks during the six months ended December 27, 2019 and December 31, 2018, respectively. There have been no reclassifications of prior comparable periods due to this change.

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 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, Japan, 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 (loss) income ("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 and were immaterial for all periods presented.

LEASES

Effective July 1, 2019, the Company adopted ASC 842, *Leases*, ("ASC 842"), which requires lessees to recognize a right-of-use ("ROU") asset and lease liability for most lease arrangements. The Company has adopted ASC 842 using the optional transition method and, as a result, there have been no reclassifications of prior comparable periods due to this adoption.

The Company has arrangements involving the lease of facilities, machinery and equipment. Under ASC 842, at inception of the arrangement, the Company determines whether the contract is or contains a lease and whether the lease should be classified as an operating or a financing lease. This determination, among other considerations, involves an assessment of whether the Company can control the underlying asset and have the right to obtain substantially all of the economic benefits or outputs from the asset.

The Company recognizes ROU assets and lease liabilities as of the lease commencement date based on the net present value of the future minimum lease payments over the lease term. ASC 842 requires lessees to use the rate implicit in the lease unless it is not readily determinable and then it may use its incremental borrowing rate ("IBR") to discount the future minimum lease payments. Most of the Company's lease arrangements do not provide an implicit rate; therefore, the Company uses its IBR to discount the future minimum lease payments. The Company determines its IBR with its credit rating and current economic information available as of the commencement date, as well as the identified lease term. During the assessment of the lease term, the Company considers its renewal options and extensions within the arrangements and the Company includes these options when it is reasonably certain to extend the term of the lease.

The Company has lease arrangements with both lease and non-lease components. Consideration is allocated to lease and non-lease components based on estimated standalone prices. The Company has elected to exclude non-lease components from the calculation of its ROU assets and lease liabilities. In the Company's adoption of ASC 842, leases with an initial term of 12 months or less will not result in recognition of a ROU asset and a lease liability and will be expensed as incurred over the lease term. Leases of this nature were immaterial to the Company's consolidated financial statements.

The Company has lease arrangements that contain incentives for tenant improvements as well as fixed rent escalation clauses. For contracts with tenant improvement incentives that are determined to be a leasehold improvement that will be owned by the lessee and the Company is reasonably certain to exercise, it records a reduction to the lease liability and amortizes the incentive over the identified term of the lease as a reduction to rent expense. The Company records rental expense on a straight-line basis over the identified lease term on contracts with rent escalation clauses.

Finance leases are not material to the Company's consolidated financial statements and the Company is not a lessor in any material lease arrangements. There are no material restrictions, covenants, sale and leaseback transactions, variable lease payments or residual value guarantees in the Company's lease arrangements. Operating leases are included in Operating lease right-of-use assets, Accrued expenses, and Operating lease liabilities in the Company's Consolidated Balance Sheets. The standard had no impact on the Company's Consolidated Statements of Operations and Comprehensive Income or Consolidated Statements of Cash Flows. See Note N to the consolidated financial statements for more information regarding the adoption of this standard.

REVENUE RECOGNITION

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, ("ASC 606"). The Company is a leading commercial provider of secure sensor and safety-critical mission processing subsystems. 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 79% and 76% of revenues for the second quarter and six months ended December 27, 2019, respectively. Contracts with distinct performance obligations recognized at a point in time, with or without an allocation of the transaction price, totaled 76% and 78% of revenues for the second quarter and six months ended December 31, 2018, respectively.

The Company also engages in long-term contracts for development, production and service activities and recognizes revenue for performance obligations over time. These long-term contracts involve the design, development, manufacture, or modification of complex modules and sub-assemblies or integrated subsystems and related services. Long-term 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 under long-term contracts over time was 21% and 24% of total revenues for the second quarter and six months ended December 27, 2019, respectively. Total revenue recognized under long-term contracts over time was 24% and 22% of total revenues for the second quarter and six months ended and December 31, 2018, 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 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.

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

ACCOUNTS RECEIVABLE

Accounts receivable, net, represents amounts that have been billed and are currently due from customers. The Company maintains an allowance for doubtful accounts 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 customers' credit worthiness, 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.

CONTRACT BALANCES

Contract balances result from the timing of revenue recognized, billings and cash collections, and 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. 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 and the long-term portion of deferred revenue is included within 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 $61,302 and $57,387 as of December 27, 2019 and June 30, 2019, respectively. The contract asset balance increased due to growth in revenue recognized under long-term contracts over time during the six months ended December 27, 2019. The contract liability balances were $19,388 and $12,362 as of December 27, 2019 and June 30, 2019, respectively. The increase was due to advanced billings across multiple programs.

Revenue recognized for the second quarter and six months ended December 27, 2019 that was previously included in the contract liability balance at June 30, 2019 was $2,898 and $8,274, respectively. Revenue recognized for the second quarter and six months ended December 31, 2018 that was included in the contract liability balance at June 30, 2018 was $1,617 and $8,983, 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 December 27, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was $297,593. The Company expects to recognize approximately 77% of its remaining performance obligations as revenue in the next 12 months and the balance thereafter.

WEIGHTED-AVERAGE SHARES

Weighted-average shares were calculated as follows:

	Second Quarters Ended		Six Months Ended	
	December 27, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Basic weighted-average shares outstanding	54,548	47,189	54,468	47,118
Effect of dilutive equity instruments	453	516	569	578
Diluted weighted-average shares outstanding	55,001	47,705	55,037	47,696

Equity instruments to purchase 419 and 297 shares of common stock were not included in the calculation of diluted net earnings per share for the second quarter and six months ended December 27, 2019, because the equity instruments were anti-dilutive. Equity instruments to purchase 31 and 481 shares of common stock were not included in the calculation of diluted net earnings per share for the second quarter and six months ended and December 31, 2018, because the equity instruments were anti-dilutive.

C. Acquisitions

AMERICAN PANEL CORPORATION ACQUISITION

On September 23, 2019, the Company acquired American Panel Corporation (“APC”). Based in Alpharetta, Georgia, APC is a leading innovator in large area display technology for the aerospace and defense market. APC's capabilities are deployed on a wide range of next-generation platforms. The Company acquired APC for an all cash purchase price of $100,000, prior to net working capital and net debt adjustments. The Company funded the acquisition with cash on hand.

The following table presents the net purchase price and the fair values of the assets and liabilities of APC on a preliminary basis:

		Amounts
Consideration transferred		
Cash paid at closing	$	100,826
Working capital and net debt adjustment		(5,952)
Liabilities assumed		2,454
Less cash acquired		(826)
Net purchase price	$	96,502
Estimated fair value of tangible assets acquired and liabilities assumed		
Cash	$	826
Accounts receivable		3,726
Inventory		11,510
Fixed assets		690
Other current and non-current assets		3,494
Accounts payable		(1,554)
Accrued expenses		(1,070)
Other current and non-current liabilities		(5,749)
Estimated fair value of net tangible assets acquired		11,873
Estimated fair value of identifiable intangible assets		33,200
Estimated goodwill		52,255
Estimated fair value of net assets acquired		97,328
Less cash acquired		(826)
Net purchase price	$	96,502

The amounts above represent the preliminary fair value estimates as of December 27, 2019 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. The preliminary identifiable intangible asset estimate includes customer relationships of $20,400 with a useful life of 11 years, completed technology of $10,400 with a useful life of 11 years and backlog of $2,400 with a useful life of two years. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill.

The goodwill of $52,255 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 under the Sensor and Mission Processing (“SMP”) reporting unit. Since APC was a qualified subchapter S subsidiary, the acquisition is treated as an asset purchase for tax purposes. The Company has estimated the tax value of the intangible assets from this transaction and is amortizing the amount over 15 years for tax purposes. As of December 27, 2019, the Company had $52,357 of goodwill deductible for tax purposes. The Company has not furnished pro forma information relating to APC because such information is not material to the Company's financial results.

The revenues and income before income taxes from APC included in the Company's consolidated results for the second quarter ended December 27, 2019 were $9,653 and $1,495, respectively. The revenues and income before income taxes from APC included in the Company's consolidated results for the six months ended December 27, 2019 were $10,596 and $1,802, respectively. The APC results include expenses resulting from purchase accounting which include amortization of intangible assets and inventory step-up.

The Athena Group Acquisition

On April 18, 2019, the Company acquired The Athena Group, Inc. (“Athena”), a privately-held company based in Gainesville, Florida and a leading provider of cryptographic and countermeasure IP vital to securing defense computing systems. The Company acquired Athena for an all cash purchase price of $34,000, prior to net working capital and net debt adjustments, which was funded through the revolving credit facility (“the Revolver”).

The following table presents the net purchase price and the fair values of the assets and liabilities of Athena on a preliminary basis:

		Amounts
Consideration transferred		
Cash paid at closing	$	34,049
Working capital and net debt adjustment		(446)
Less cash acquired		(49)
Net purchase price	$	33,554
Estimated fair value of tangible assets acquired and liabilities assumed		
Cash	$	49
Accounts receivable		726
Fixed assets		74
Other current and non-current assets		260
Accounts payable		(48)
Accrued expenses		(143)
Other current and non-current liabilities		(600)
Deferred tax liability		(6,414)
Estimated fair value of net tangible liabilities acquired		(6,096)
Estimated fair value of identifiable intangible assets		23,700
Estimated goodwill		15,999
Estimated fair value of net assets acquired		33,603
Less cash acquired		(49)
Net purchase price	$	33,554

The amounts above represent the preliminary fair value estimates as of December 27, 2019 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. The preliminary identifiable intangible asset estimate includes completed technology of $23,700 with a useful life of 11 years. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill.

The goodwill of $15,999 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 tax deductible. The goodwill from this acquisition is reported under the Mercury Defense Systems (“MDS”) reporting unit. The Company has not furnished pro forma information relating to Athena because such information is not material to the Company's financial results.

Syntonic Microwave LLC Acquisition

On April 18, 2019, the Company acquired Syntonic Microwave LLC (“Syntonic”), a privately held company based in Campbell, California and a leading provider of advanced synthesizers, wideband phase coherent tuners and microwave converters optimized for signals intelligence and electronic intelligence applications demanding frequency coverage up to 40 GHz with 2 GHz instantaneous bandwidth. The Company acquired Syntonic for an all cash purchase price of $12,000, prior to net working capital and net debt adjustments, which was funded through the Revolver.

The following table presents the net purchase price and the fair values of the assets and liabilities of Syntonic on a preliminary basis:

	Amounts
Consideration transferred	
Cash paid at closing	$ 13,118
Less cash acquired	(1,118)
Net purchase price	$ 12,000
Estimated fair value of tangible assets acquired and liabilities assumed	
Cash	$ 1,118
Accounts receivable	281
Inventory	482
Fixed assets	31
Other current and non-current assets	6
Accounts payable	(71)
Accrued expenses	(61)
Estimated fair value of net tangible assets acquired	1,786
Estimated fair value of identifiable intangible assets	7,100
Estimated goodwill	4,232
Estimated fair value of net assets acquired	13,118
Less cash acquired	(1,118)
Net purchase price	$ 12,000

The amounts above represent the preliminary fair value estimates as of December 27, 2019 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. The preliminary identifiable intangible asset estimates include customer relationships of $4,200 with a useful life of 10 years, completed technology of $2,500 with a useful life of nine years and backlog of $400 with a useful life of one year. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill.

The goodwill of $4,232 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 under the Advanced Microelectronic Solutions (“AMS”) reporting unit. Since Syntonic was a limited liability company, the acquisition is treated as an asset purchase for tax purposes. The Company has estimated the tax value of the intangible assets from this transaction and is amortizing the amount over 15 years for tax purposes. As of December 27, 2019, the Company had $2,988 of goodwill deductible for tax purposes. The Company has not furnished pro forma information relating to Syntonic because such information is not material to the Company's financial results.

GECO AVIONICS AQUISITION

On January 29, 2019, the Company announced that it had acquired GECO Avionics, LLC (“GECO”), a privately held company in Mesa, Arizona, with over twenty years of experience designing and manufacturing affordable safety-critical avionics and mission computing solutions. The Company acquired GECO for an all cash purchase price of $36,500, which was funded through the Revolver.

The following table presents the net purchase price and the fair values of the assets and liabilities of GECO on a preliminary basis:

	Amounts
Consideration transferred	
Cash paid at closing	$ 36,500
Net purchase price	$ 36,500
Estimated fair value of tangible assets acquired and liabilities assumed	
Accounts receivable	$ 1,320
Inventory	1,454
Fixed assets	459
Accounts payable	(217)
Accrued expenses	(239)
Estimated fair value of net tangible assets acquired	2,777
Estimated fair value of identifiable intangible assets	12,700
Estimated goodwill	21,023
Estimated fair value of net assets acquired	36,500
Net purchase price	$ 36,500

The amounts above represent the preliminary fair value estimates as of December 27, 2019 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. The preliminary identifiable intangible asset estimates include customer relationships of $6,900 with a useful life of 11 years, completed technology of $4,800 with a useful life of 10 years and backlog of $1,000 with a useful life of two years. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill.

The goodwill of $21,023 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 under the SMP reporting unit. Since GECO was a limited liability company, the acquisition is treated as an asset purchase for tax purposes. The Company has estimated the tax value of the intangible assets from this transaction and is amortizing the amount over 15 years for tax purposes. As of December 27, 2019, the Company had $20,300 of goodwill deductible for tax purposes. The Company has not furnished pro forma information relating to GECO because such information is not material to the Company's financial results.

GERMANE SYSTEMS AQUISITION

On July 31, 2018, the Company announced that it had entered into a membership interest purchase agreement (the "Purchase Agreement") and acquired Germane Systems, LC ("Germane") pursuant to the terms of the Purchase Agreement.

Based in Chantilly, Virginia, Germane is an industry leader in the design, development and manufacturing of rugged servers, computers and storage systems for command, control and intelligence ("C2I") applications. The Company acquired Germane for an all cash purchase price of $45,000, prior to net working capital and net debt adjustments. The Company funded the acquisition with borrowings obtained under the Revolver. On December 12, 2018 the Company and former owners of Germane agreed to post-closing adjustments totaling $1,244, which decreased the Company's net purchase price.

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

		Amounts
Consideration transferred		
Cash paid at closing	$	47,166
Working capital and net debt adjustment		(1,244)
Less cash acquired		(193)
Net purchase price	$	45,729
Fair value of tangible assets acquired and liabilities assumed		
Cash	$	193
Accounts receivable		4,277
Inventory		8,575
Fixed assets		867
Other current and non-current assets		596
Accounts payable		(3,146)
Accrued expenses		(1,394)
Other current and non-current liabilities		(514)
Fair value of net tangible assets acquired		9,454
Fair value of identifiable intangible assets		12,910
Goodwill		23,558
Fair value of net assets acquired		45,922
Less cash acquired		(193)
Net purchase price	$	45,729

On July 31, 2019, the measurement period for Germane expired. The identifiable intangible assets include customer relationships of $8,500 with a useful life of 11 years, completed technology of $4,200 with a useful life of eight years and backlog of $210 with a useful life of one year.

The goodwill of $23,558 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 under the MDS reporting unit. Since Germane was a limited liability company, the acquisition is treated as an asset purchase for tax purposes. The Company has estimated the tax value of the intangible assets from this transaction and is amortizing the amount over 15 years for tax purposes. As of December 27, 2019, the Company had $21,763 of goodwill deductible for tax purposes.

D. Fair Value of Financial Instruments

The following table summarizes the Company’s financial assets and liabilities measured at fair value on a recurring basis at December 27, 2019:

	Fair Value Measurements							
	December 27, 2019		Level 1		Level 2		Level 3	
Assets:								
Certificates of deposit	$	31,781	$	—	$	31,781	$	—
Total	$	31,781	$	—	$	31,781	$	—

The carrying values of cash and cash equivalents, including money market funds, restricted cash, accounts receivable and payable, and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The fair value of the Company’s certificates of deposit are determined through quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable.

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:

	December 27, 2019	June 30, 2019
Raw materials	$ 89,191	$ 84,561
Work in process	48,465	38,525
Finished goods	15,986	14,026
Total	$ 153,642	$ 137,112

F. Goodwill

The following table sets forth the changes in the carrying amount of goodwill by reporting unit for the six months ended December 27, 2019:

	SMP	AMS	MDS	Total
Balance at June 30, 2019	$ 140,783	$ 222,379	$ 198,984	$ 562,146
Goodwill adjustment for the Germane acquisition	—	—	447	447
Goodwill adjustment for the GECO acquisition	(200)	—	—	(200)
Goodwill arising from the APC acquisition	52,255	—	—	52,255
Balance at December 27, 2019	$ 192,838	$ 222,379	$ 199,431	$ 614,648

In the six months ended December 27, 2019, there were no triggering events, as defined by ASC 350, *Intangibles - Goodwill and Other*, which required an interim goodwill impairment test. The Company performs its annual goodwill impairment test in the fourth quarter of each fiscal year.

G. Restructuring

The following table presents the detail of activity for the Company's restructuring plans:

	Severance & Related	Facilities & Other	Total
Restructuring liability at June 30, 2019	$ 4	$ —	$ 4
Restructuring and other charges	1,716	33	1,749
Cash paid	(700)	(33)	(733)
Restructuring liability at December 27, 2019	$ 1,020	$ —	$ 1,020

During the six months ended December 27, 2019, the Company incurred net restructuring and other charges of $1,749. Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities.

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

H. Income Taxes

The Company recorded an income tax provision of $5,110 and $4,483 on income from operations before income taxes of $20,786 and $16,866 for the second quarters ended December 27, 2019 and December 31, 2018, respectively. The Company recorded an income tax provision of $3,092 and $7,612 on income from operations before income taxes of $38,015 and $27,474 for the six months ended December 27, 2019 and December 31, 2018, respectively.

During the second quarters ended December 27, 2019 and December 31, 2018, the Company recognized a discrete tax benefit of $353 and $67, respectively, related to excess tax benefits on stock-based compensation. The effective tax rate for the second quarters ended December 27, 2019 and December 31, 2018 differed from the Federal statutory rate primarily due to Federal research and development credits, excess tax benefits related to stock compensation, a modified territorial tax system and a minimum tax on certain foreign earnings, and state taxes.

During the six months ended December 27, 2019 and December 31, 2018, the Company recognized a discrete tax benefit of $6,480 and $1,716, respectively, related to excess tax benefits on stock-based compensation. The effective tax rate for the six months ended December 27, 2019 and December 31, 2018 differed from the Federal statutory rate primarily due to Federal research and development credits, excess tax benefits related to stock compensation, a modified territorial tax system and a minimum tax on certain foreign earnings, and state taxes.

During the second quarter ended December 27, 2019, there were no material changes made to the Company’s unrecognized tax positions.

I. Debt

REVOLVING CREDIT FACILITY

On September 28, 2018, the Company amended the Revolver to increase and extend the borrowing capacity to a $750,000, 5-year revolving credit line, with the maturity extended to September 28, 2023. As of December 27, 2019, the Company's outstanding balance of unamortized deferred financing costs was $5,041, which is being amortized to other expense, net on a straight line basis over the term of the Revolver.

As of December 27, 2019, the Company was in compliance with all covenants and conditions under the Revolver and there were no outstanding borrowings against the Revolver. There were outstanding letters of credit of $1,106 as of December 27, 2019.

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 December 27, 2019 was a net liability of $9,343, which is recorded in other non-current liabilities on the Consolidated Balance Sheet. The Company recorded a net gain of $8 and $15 in AOCI during the second quarter and six months ended December 27, 2019, respectively. The Company recorded a net loss of $15 and $30 in AOCI during the second quarter and six months ended December 31, 2018, respectively. The Company recognized net periodic benefit costs of $296 and $592 associated with the Plan for the second quarter and six months ended December 27, 2019, respectively. The Company recognized net periodic benefit costs of $200 and $402 associated with the Plan for the second quarter and six months ended December 31, 2018, respectively. The Company's total expected employer contributions to the Plan during fiscal 2020 are $822.

K. **Stock-Based Compensation**

STOCK INCENTIVE PLANS

The aggregate number of shares authorized for issuance under the Company’s Amended and Restated 2018 Stock Incentive Plan (the “2018 Plan”) is 2,862 shares, with an additional 710 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”) at the time of shareholder approval of the 2018 Plan. The 2018 Plan replaced the 2005 Plan. On November 6, 2019, an additional 184 shares from the 2005 Plan were rolled into the 2018 Plan as a result of forfeiture, cancellation, or termination (other than by exercise) of previously-made grants under 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. All stock options are 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 2,681 shares available for future grant under the 2018 Plan at December 27, 2019.

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

The aggregate number of shares authorized for issuance under the Company’s 1997 Employee Stock Purchase Plan, as amended and restated (“ESPP”), is 1,800 shares. 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 no shares issued under the ESPP during the six months ended December 27, 2019. There were 51 shares issued under the ESPP during the six months ended and December 31, 2018. Shares available for future purchase under the ESPP totaled 118 at December 27, 2019.

STOCK OPTION AND AWARD ACTIVITY

The following table summarizes activity of the Company’s stock option plans since June 30, 2019:

	Options Outstanding		
	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**
Outstanding at June 30, 2019	4	$ 5.52	2.13
Granted	—	—	
Exercised	(1)	5.52	
Canceled	—	—	
Outstanding at December 27, 2019	3	$ 5.52	1.63

The following table summarizes the status of the Company’s non-vested restricted stock awards and deferred stock awards since June 30, 2019:

	Non-vested Restricted Stock Awards	
	Number of Shares	**Weighted Average Grant Date Fair Value**
Outstanding at June 30, 2019	1,046	$ 39.62
Granted	474	81.52
Vested	(491)	29.95
Forfeited	(26)	50.05
Outstanding at December 27, 2019	1,003	$ 59.51

STOCK-BASED COMPENSATION EXPENSE

The Company recognizes expense for its share-based payment plans in the Consolidated Statements of Operations and Comprehensive Income in accordance with ASC 718, *Compensation - Stock Compensation* ("ASC 718"). The Company had $481 and $241 of capitalized stock-based compensation expense on the Consolidated Balance Sheets for the periods ended December 27, 2019 and June 30, 2019, 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:

	Second Quarters Ended		Six Months Ended	
	December 27, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Cost of revenues	$ 200	$ 159	$ 341	$ 411
Selling, general and administrative	5,384	4,542	10,027	8,426
Research and development	947	583	1,822	1,126
Stock-based compensation expense before tax	6,531	5,284	12,190	9,963
Income taxes	(1,698)	(1,427)	(3,169)	(2,690)
Stock-based compensation expense, net of income taxes	$ 4,833	$ 3,857	$ 9,021	$ 7,273

L. 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. The Company is comprised of one operating and reportable segment. The Company utilized the management approach for determining its operating segment in accordance with ASC 280, *Segment Reporting*.

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

	U.S.	Europe	Asia Pacific	Eliminations	Total
SECOND QUARTER ENDED DECEMBER 27, 2019					
Net revenues to unaffiliated customers	$ 181,381	$ 11,721	$ 811	$ —	$ 193,913
Inter-geographic revenues	654	817	—	(1,471)	—
Net revenues	$ 182,035	$ 12,538	$ 811	$ (1,471)	$ 193,913
SECOND QUARTER ENDED DECEMBER 31, 2018					
Net revenues to unaffiliated customers	$ 145,669	$ 13,200	$ 220	$ —	$ 159,089
Inter-geographic revenues	803	345	—	(1,148)	—
Net revenues	$ 146,472	$ 13,545	$ 220	$ (1,148)	$ 159,089
SIX MONTHS ENDED DECEMBER 27, 2019					
Net revenues to unaffiliated customers	$ 343,377	$ 26,161	$ 1,679	$ —	$ 371,217
Inter-geographic revenues	1,626	1,468	—	(3,094)	—
Net revenues	$ 345,003	$ 27,629	$ 1,679	$ (3,094)	$ 371,217
SIX MONTHS ENDED DECEMBER 31, 2018					
Net revenues to unaffiliated customers	$ 277,018	$ 24,638	$ 1,489	$ —	$ 303,145
Inter-geographic revenues	2,450	703	—	(3,153)	—
Net revenues	$ 279,468	$ 25,341	$ 1,489	$ (3,153)	$ 303,145

In recent years, the Company completed a series of acquisitions that changed its technological capabilities, applications and end markets. As these acquisitions and changes occurred, the Company increased the proportion of its revenue derived from the sale of components in different technological areas, and also increased the amount of revenue associated with combining technologies into more complex and diverse products including modules, sub-assemblies and integrated subsystems. 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 and/or product grouping is attained, the categorization of these products can vary over time. When this occurs, the Company reclassifies revenue by end user, application and/or product grouping for prior periods. Such reclassifications typically do not materially change the sizing of, or 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:

	Second Quarters Ended		Six Months Ended	
	December 27, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Domestic[1]	$ 171,624	$ 142,906	$ 329,099	$ 273,485
International/Foreign Military Sales[2]	22,289	16,183	42,118	29,660
Total Net Revenue	$ 193,913	$ 159,089	$ 371,217	$ 303,145

(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 known to be 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:

	Second Quarters Ended		Six Months Ended	
	December 27, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Radar[1]	$ 48,328	$ 42,008	$ 86,247	$ 82,987
Electronic Warfare[2]	36,139	25,697	72,196	49,751
Other Sensor & Effector[3]	26,512	21,455	54,402	35,113
Total Sensor & Effector	110,979	89,160	212,845	167,851
C4I[4]	57,778	47,276	106,789	91,500
Other[5]	25,156	22,653	51,583	43,794
Total Net Revenue	$ 193,913	$ 159,089	$ 371,217	$ 303,145

(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 & Effector products include all Sensor & 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:

	Second Quarters Ended		Six Months Ended	
	December 27, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Components[1]	$ 60,381	$ 40,914	$ 113,800	$ 81,314
Modules and Sub-assemblies[2]	56,427	42,397	102,514	93,989
Integrated Subsystems[3]	77,105	75,778	154,903	127,842
Total Net Revenue	$ 193,913	$ 159,089	$ 371,217	$ 303,145

(1) Components include technology elements typically performing a single, discrete technological function, which when physically combined with other components may be used to create a module or sub-assembly. Examples include, but are not limited to, 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 include combinations of multiple functional technology elements and/or components that work together to perform multiple functions but are typically resident on or within a single board or housing. Modules and sub-assemblies may in turn be combined to form an integrated subsystem. Examples of modules and sub-assemblies include, but are not limited to, embedded processing modules, embedded processing boards, switch fabric boards, high speed input/output boards, digital receiver boards, graphics and video processing and Ethernet and IO (input-output) boards, multi-chip modules, integrated radio frequency and microwave multi-function assemblies, tuners, and transceivers.
(3) Integrated Subsystems include multiple modules and/or sub-assemblies combined with a backplane or similar functional element and software to enable a solution. These are typically but not always integrated within a chassis and with cooling, power and other elements to address various requirements and are also often combined with additional technologies for interaction with other parts of a complete system or platform. Integrated subsystems also include spare and replacement modules and sub-assemblies sold as part of the same program for use in or with integrated subsystems sold by the Company.

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

	U.S.	Europe	Asia Pacific	Eliminations	Total
December 27, 2019	$ 67,493	$ 5,195	$ 8	$ —	$ 72,696
June 30, 2019	$ 54,952	$ 5,037	$ 12	$ —	$ 60,001

Identifiable long-lived assets exclude ROU assets, goodwill, and intangible assets.

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

	Second Quarters Ended		Six Months Ended	
	December 27, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Lockheed Martin Corporation	16 %	13 %	17 %	11 %
Raytheon Company	16 %	25 %	15 %	22 %
Northrop Grumman Corporation	10 %	*	10 %	*
L3Harris Technologies	*	*	11 %	*
	42 %	38 %	53 %	33 %

* 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. Programs comprising 10% or more of the Company's revenue for the periods shown are as follows:

	Second Quarters Ended		Six Months Ended	
	December 27, 2019	December 31, 2018	December 27, 2019	December 31, 2018
F-35	*	11 %	*	11 %
	— %	11 %	— %	11 %

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

M. 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 its 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.

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 December 27, 2019, 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 $97,083.

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.

N. Leases

The Company enters into lease arrangements to facilitate its operations, including manufacturing, storage, as well as engineering, sales, marketing, and administration resources. As described in Note B to the consolidated financial statements, effective July 1, 2019, the Company adopted ASC 842 using the optional transition method and, as a result, did not recast prior period unaudited consolidated comparative financial statements. As such, all prior period amounts and disclosures are presented under ASC 840, *Leases (Topic 840)*. Finance leases are not material to the Company's consolidated financial statements and therefore are excluded from the following disclosures.

SUPPLEMENTAL BALANCE SHEET INFORMATION

Supplemental operating lease balance sheet information is summarized as follows:

	As of December 27, 2019
Operating lease right-of-use assets	$ 49,826
Accrued expenses(1)	$ 7,301
Operating lease liabilities	55,257
Total operating lease liabilities	$ 62,558

(1) The short term portion of the Operating lease liabilities is included within Accrued expenses on the Consolidated Balance Sheet.

Other Supplemental Information

Other supplemental operating lease information is summarized as follows:

	Six Months Ended December 27, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	$ 3,524
Right-of-use assets obtained in exchange for new lease liabilities [1]	$ 5,606
Weighted average remaining lease term	9.2 years
Weighted average discount rate	4.84 %

Maturities of Lease Commitments

Maturities of operating lease commitments as of December 27, 2019 were as follows:

Fiscal Year	Totals
2020[1]	$ 5,231
2021	9,638
2022	8,989
2023	8,139
2024	7,153
Thereafter	39,924
Total lease payments	79,074
Less: imputed interest	(16,516)
Present value of operating lease liabilities	$ 62,558

(1) Excludes the six months ended December 27, 2019.

As previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2019, future minimum lease payments for non-cancelable operating leases were as follows:

Fiscal Year	Totals
2020	$ 10,205
2021	8,949
2022	8,280
2023	7,414
2024	6,496
Thereafter	28,286
Total minimum lease payments	$ 69,630

During the second quarter and six months ended December 27, 2019, the Company recognized operating lease expense of $2,375 and $4,991, respectively. There were no material restrictions, covenants, sale and leaseback transactions, variable lease payments or residual value guarantees imposed by the Company's leases at December 27, 2019.

O. 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.

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 any U.S. Federal government shutdown or extended continuing resolution, 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 or unanticipated expenses due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions and restructurings, or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, increases in interest rates, changes to interest rate swaps or other cash flow hedging arrangements, changes to industrial security and cyber-security regulations and requirements, changes in tax rates or tax regulations, 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 set forth under Part I-Item 1A (Risk Factors) in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2019. 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 the leader in making trusted, secure mission-critical technologies profoundly more accessible to aerospace and defense. Our innovative solutions power more than 300 aerospace, commercial aviation, defense, security and intelligence programs, configured and optimized for mission success in some of the most challenging and demanding environments. Headquartered in Andover, MA, with manufacturing and design facilities around the world, Mercury specializes in engineering, adapting and manufacturing new solutions purpose-built to meet current and emerging high-tech needs. Our products and solutions have been successfully deployed with over 25 different defense prime contractors, a testament to our deep domain expertise and our commitment to Innovation that Matters®.

Our unique capabilities, technology and R&D investment strategy combine to differentiate Mercury in our industry. Our technologies and capabilities include secure embedded processing modules and subsystems, mission computers, secure and rugged rack-mount servers, safety-critical avionics, radio frequency (“RF”) components, multi-function assemblies and subsystems. We maintain our technological edge by investing in critical capabilities and intellectual property (“IP” or “building blocks”) in processing and RF, leveraging open standards and open architectures to quickly adapt those building blocks into solutions for highly data-intensive applications for the sensor processing chain, all the way from the sensor to the network. This can encompass multiple sensor and mission processing functions - including emerging needs in artificial intelligence (“AI”). We leverage the Company’s building blocks to design, build and manufacture integrated sensor processing subsystems - often including classified application-specific software and IP - for the C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance) and electronic warfare (“EW”) markets. These subsystems are deployed by our customers - defense and commercial aerospace companies, defense prime contractors and the U.S. Department of Defense (“DoD”) - in a variety of mission-critical applications. An important component of adapting these technologies and IP for these applications is our investment in specialized packaging, ruggedization and cooling to address size, weight and power (“SWaP”) challenges. These investments, coupled with our domestic design, development, and manufacturing capabilities in mission computing, safety-critical avionics and platform management solutions; and RF, microwave and millimeter wave components and subsystems brings significant domain expertise to our customers.

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 December 27, 2019, we had 1,805 employees. Our consolidated revenues, acquired revenues, net income, diluted net earnings per share, adjusted earnings per share ("adjusted EPS"), and adjusted EBITDA for the second quarter ended December 27, 2019 were $193.9 million, $16.3 million, $15.7 million, $0.29, $0.54, and $42.8 million, respectively. Our consolidated revenues, acquired revenues, net income, diluted net earnings per share, adjusted EPS, and adjusted EBITDA for the six months ended December 27, 2019 were $371.2 million, $35.6 million, $34.9 million, $0.63, $0.98, and $79.5 million, respectively. 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 second quarter ended December 27, 2019 include full period results from the acquisitions of GECO Avionics, LLC ("GECO"), The Athena Group, Inc. ("Athena"), Syntonic Microwave LLC ("Syntonic") and American Panel Corporation ("APC"). Results of operations for the six months ended December 27, 2019 include full period results from the acquisitions of Germane Systems, LC ("Germane"), GECO, Athena, Syntonic and only the results from acquisition date for APC which was acquired subsequent to June 30, 2019. Results of operations for six months ended December 31, 2018, include only results from the acquisition date for Germane. Accordingly, the periods presented below are not directly comparable.

The second quarter ended December 27, 2019 compared to the second quarter ended December 31, 2018

The following table set forth, for the second quarter ended indicated, financial data from the Consolidated Statements of Operations and Comprehensive Income:

(In thousands)	December 27, 2019	As a % of Total Net Revenue	December 31, 2018	As a % of Total Net Revenue
Net revenues	$ 193,913	100.0 %	$ 159,089	100.0 %
Cost of revenues	105,407	54.4	88,202	55.4
Gross margin	88,506	45.6	70,887	44.6
Operating expenses:				
Selling, general and administrative	32,804	16.9	27,819	17.5
Research and development	24,660	12.7	16,192	10.2
Amortization of intangible assets	7,992	4.1	6,939	4.4
Restructuring and other charges	1,101	0.6	23	—
Acquisition costs and other related expenses	1,124	0.6	53	—
Total operating expenses	67,681	34.9	51,026	32.1
Income from operations	20,825	10.7	19,861	12.5
Interest income	312	0.2	71	—
Interest expense	—	—	(2,196)	(1.4)
Other expense, net	(351)	(0.2)	(870)	(0.5)
Income before income taxes	20,786	10.7	16,866	10.6
Tax provision	5,110	2.6	4,483	2.8
Net income	$ 15,676	8.1 %	$ 12,383	7.8 %

REVENUES

Total revenues increased $34.8 million, or 21.9%, for the second quarter ended December 27, 2019, as compared to the second quarter ended December 31, 2018 including "acquired revenue" which represents net revenue from acquired businesses that have been part of Mercury for completion of four full quarters or less (and excludes any intercompany transactions). After the completion of four fiscal quarters, acquired businesses will be treated as organic for current and comparable historical periods. The increase was primarily due to $18.5 million of additional organic revenues which were predominantly driven by increased demand for components and modules and sub-assemblies across the radar and electronic warfare ("EW") applications. The organic revenues increase were driven by the Filthy Badger, F16/SABR and P8 programs, which were partially offset by decreases in the F-35 program. Total revenues also increased $16.3 million from acquired revenues due to GECO, Athena, Syntonic and APC, which were all acquired following December 31, 2018. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

Gross Margin

Gross margin was 45.6% for the second quarter ended December 27, 2019, an increase of 100 basis points from the 44.6% gross margin achieved during the second quarter ended December 31, 2018. The higher gross margin was primarily driven by program mix and operational efficiencies, as well as a decrease in Customer Funded Research and Development ("CRAD"). The Athena and APC acquisitions also contributed to the increase in gross margin. CRAD primarily represents engineering labor associated with long-term contracts for customized development, production and service activities. Due to the nature of these efforts, they typically carry a lower margin. These products are predominately grouped within integrated subsystems and to a lesser extent modules and sub-assemblies. The gross margin improvement was partially offset by $0.6 million of inventory step-up related to the APC acquisition for the second quarter ended December 27, 2019.

Selling, General and Administrative

Selling, general and administrative expenses increased $5.0 million, or 18.0%, to $32.8 million during the second quarter ended December 27, 2019, as compared to $27.8 million in the second quarter ended December 31, 2018. The increase was primarily related to additional headcount from organic growth, as well as the acquisitions of GECO, Athena, Syntonic and APC. Selling, general and administrative expenses decreased as a percentage of revenue to 16.9% for the second quarter ended December 27, 2019 from 17.5% for the second quarter ended December 31, 2018, primarily due to improved operating leverage.

Research and Development

Research and development expenses increased approximately $8.5 million, or 52.5%, to $24.7 million during the second quarter ended December 27, 2019, as compared to $16.2 million during the second quarter ended December 31, 2018. The increase was primarily due to increased headcount from organic growth and our recent acquisitions. Research and development expenses accounted for 12.7% and 10.2% of our revenues for second quarter ended December 27, 2019 and second quarter ended December 31, 2018, respectively. The increase as a percentage of revenue was primarily driven by the continued investment in the growth of the business for the second quarter ended December 27, 2019.

Restructuring and Other Charges

Restructuring and other charges increased $1.1 million during the second quarter ended December 27, 2019, as compared to the second quarter ended December 31, 2018. Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities.

Acquisition Costs and Other Related Expenses

We incurred $1.1 million of acquisition costs and other related expenses during the second quarter ended December 27, 2019, as compared to $0.1 million during the second quarter ended December 31, 2018. The second quarter ended December 27, 2019 included acquisition costs and other related expenses related to the acquisition of APC, as well as costs associated with our evaluation of other acquisition opportunities. We expect to incur acquisition costs and other related expenses periodically in the future as we continue to seek acquisition opportunities to expand our technological capabilities and especially within sensor and effector and C4I markets. Transaction costs incurred by the acquiree prior to the consummation of an acquisition would not be reflected in our historical results of operations.

Interest Income

Interest income increased to $0.3 million in the second quarter ended December 27, 2019. This was driven by higher average balances of cash on hand during the second quarter ended December 27, 2019.

Interest Expense

There was no interest expense incurred during the second quarter ended December 27, 2019, as there were no outstanding borrowings on our revolving credit facility ("the Revolver") during the period.

Other Expense, Net

Other expense, net decreased $0.5 million for the second quarter ended December 27, 2019, as compared to the second quarter ended December 31, 2018. The decrease was driven by additional foreign currency translation gain of $0.5 million for the second quarter ended December 27, 2019, compared to the second quarter ended December 31, 2018.

Income Taxes

We recorded an income tax provision of $5.1 million and $4.5 million on income before income taxes of $20.8 million and $16.9 million for the second quarters ended December 27, 2019 and December 31, 2018, respectively. During the second quarters ended December 27, 2019 and December 31, 2018, we recognized a discrete tax benefit of $0.4 million and $0.1 million related to excess tax benefits on stock-based compensation.

The effective tax rate for the second quarters ended December 27, 2019 and December 31, 2018 differed from the Federal statutory rate of 21% primarily due to Federal research and development credits, excess tax benefits related to stock compensation, a modified territorial tax system and a minimum tax on certain foreign earnings, and state taxes.

Within the calculation of our annual effective tax rate we have used assumptions and estimates that may change as a result of future guidance and interpretation from the Internal Revenue Service ("IRS").

Six months ended December 27, 2019 compared to the six months ended December 31, 2018

The following tables set forth, for the six month periods indicated, financial data from the Consolidated Statements of Operations and Comprehensive Income:

(In thousands)	December 27, 2019	As a % of Total Net Revenue	December 31, 2018	As a % of Total Net Revenue
Net revenues	$ 371,217	100.0 %	$ 303,145	100.0 %
Cost of revenues	204,311	55.0	170,675	56.3
Gross margin	166,906	45.0	132,470	43.7
Operating expenses:				
Selling, general and administrative	62,774	16.9	52,560	17.3
Research and development	46,530	12.5	31,140	10.3
Amortization of intangible assets	15,011	4.0	14,120	4.7
Restructuring and other charges	1,749	0.5	527	0.2
Acquisition costs and other related expenses	2,541	0.8	452	0.1
Total operating expenses	128,605	34.7	98,799	32.6
Income from operations	38,301	10.3	33,671	11.1
Interest income	1,499	0.4	137	—
Interest expense	—	—	(4,455)	(1.4)
Other expense, net	(1,785)	(0.5)	(1,879)	(0.6)
Income before income taxes	38,015	10.2	27,474	9.1
Tax provision	3,092	0.8	7,612	2.5
Net income	$ 34,923	9.4 %	$ 19,862	6.6 %

REVENUES

Total revenues increased $68.1 million, or 22.5%, for the six months ended December 27, 2019 compared to the six months ended December 31, 2018. The increase is primarily due to $41.5 million of additional organic revenues related to increased demand primarily for integrated subsystems and components across the EW, other sensor and effector and C4I applications. The increases in organic revenues were primarily driven by the SEWIP Block II and AIDEWS programs and a classified missile program, which were partially offset by decreases in the F-35 and WIN-T programs. Total revenues also increased due to $26.6 million of additional acquired revenues from the Germane, GECO, Athena, Syntonic and APC acquisitions. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

GROSS MARGIN

Gross margin was 45.0% for the six months ended December 27, 2019, an increase of 130 basis points from the 43.7% gross margin achieved during the six months ended December 31, 2018. The higher gross margin was primarily driven by program mix, including lower CRAD, operational efficiencies and acquired businesses of Athena and APC. The six months ended December 27, 2019 and six months ended December 31, 2018, both include inventory step-up amortization of $0.6 million related to the APC and Germane acquisitions, respectively.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased $10.2 million or 19.4%, to $62.8 million during the six months ended December 27, 2019, compared to $52.6 million in the six months ended December 31, 2018. The increase was primarily related to additional headcount from organic growth as well as the acquisitions of GECO, Athena, Syntonic and APC. Selling, general and administrative expenses decreased as a percentage of revenues to 16.9% during the six months ended December 27, 2019 from 17.3% during the six months ended December 31, 2018, primarily due to operating leverage.

Research and Development

Research and development expenses increased $15.4 million, or 49.5%, to $46.5 million during the six months ended December 27, 2019, compared to $31.1 million during the six months ended December 31, 2018. The increase was primarily due to increased headcount from organic growth and our recent acquisitions. Research and development expenses increased as a percentage of revenues to 12.5% during the six months ended December 27, 2019 from 10.3% during the six months ended December 31, 2018. The increase was driven by continued investment in the growth of the business during the six months ended December 27, 2019.

Restructuring And Other Charges

Restructuring and other charges were $1.7 million for the six months ended December 27, 2019, compared to $0.5 million during the six months ended December 31, 2018. Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities.

Acquisition Costs and Other Related Expenses

We incurred $2.5 million of acquisition costs and other related expenses during the six months ended December 27, 2019, compared to $0.5 million during the six months ended December 31, 2018. The acquisition costs and other related expenses we incurred during the six months ended December 27, 2019 were related to the acquisition of APC as well as costs associated with our evaluation of other acquisition opportunities. We expect to incur acquisition costs and other related expenses periodically in the future as we continue to seek acquisition opportunities to expand our capabilities and new end markets within the sensor processing chain. Transaction costs incurred by the acquiree prior to the consummation of an acquisition would not be reflected in our historical results of operations.

Interest Income

Interest income increased to $1.5 million during the six months ended December 27, 2019. This was driven by higher average balances of cash on hand during the six months ended December 27, 2019.

Interest Expense

There was no interest expense incurred during the six months ended December 27, 2019, as there were no outstanding borrowings on the Revolver during the period.

Other Expense, Net

Other expense, net was $1.8 million during the six months ended December 27, 2019, compared to $1.9 million during the six months ended December 31, 2018. The decrease in other expense, net was due to a $0.3 million foreign exchange gains during the six months ended December 27, 2019, compared to a $0.3 million foreign exchange loss during the six months ended December 31, 2018. The increase in foreign exchange gains, was partially offset by an additional $0.2 million of financing and registration fees and $0.3 million of litigation and settlement expenses during the six months ended December 27, 2019, respectively.

Income Taxes

We recorded an income tax provision of $3.1 million and $7.6 million on income from operations before income taxes of $38.0 million and $27.5 million for the six months ended December 27, 2019 and December 31, 2018, respectively. During the six months ended December 27, 2019 and December 31, 2018, we recognized discrete tax benefits of $6.5 million and $1.7 million, respectively, related to excess tax benefits on stock-based compensation.

The effective tax rate for the six months ended December 27, 2019 and December 31, 2018 differed from the Federal statutory rate of 21% primarily due to Federal research and development credits, excess tax benefits related to stock-based compensation, a modified territorial tax system and a minimum tax on certain foreign earnings, and state taxes.

Within the calculation of our annual effective tax rate we have used assumptions and estimates that may change as a result of future guidance and interpretation from the IRS.

Liquidity and Capital Resources

Our primary sources of liquidity come from existing cash and cash generated from operations, our Revolver and our ability to raise capital under our universal shelf registration statement. Our near-term fixed commitments for cash expenditures consist primarily of payments under operating leases and inventory purchase commitments. We plan to invest in improvements to our facilities, including the expansion of our trusted custom microelectronics business during fiscal 2020.

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 August 28, 2017, 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 under 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. Additionally, as part of the shelf registration statement, we have entered into an equity distribution agreement which allows us to sell an aggregate of up to $200.0 million of our common stock from time to time through our agents. The actual dollar amount and number of shares of common stock we sell pursuant to the equity distribution agreement will be dependent on, among other things, market conditions and our fund raising requirements. The agents may sell the common stock by any method deemed to be an “at the market offering” as defined in Rule 415 of the Securities Act of 1933, as amended, including without limitation sales made directly on Nasdaq, on any other existing trading market for the common stock or to or through a market maker. In addition, our common stock may be offered and sold by such other methods, including privately negotiated transactions, as we and the agents may agree.

Revolving Credit Facility

On September 28, 2018, we amended the Revolver to increase and extend the borrowing capacity to a $750.0 million, 5-year revolving credit line, with the maturity extended to September 2023. As of December 27, 2019, we had no outstanding borrowings on the Revolver. See Note I in the accompanying consolidated financial statements for further discussion of the Revolver.

Cash Flows

	As of and For the Six Months Ended,	
(In thousands)	**December 27, 2019**	**December 31, 2018**
Net cash provided by operating activities	$ 56,376	$ 45,330
Net cash used in investing activities	$ (117,421)	$ (55,831)
Net cash (used in) provided by financing activities	$ (14,934)	$ 37,894
Net (decrease) increase in cash and cash equivalents	$ (75,895)	$ 27,382
Cash and cash equivalents at end of period	$ 182,037	$ 93,903

Our cash and cash equivalents decreased by $75.9 million from June 30, 2019 to December 27, 2019, primarily as the result of $96.5 million of cash on hand used to fund the acquisition of APC, $20.9 million invested in purchases of property and equipment and $14.9 million used in the purchase and retirement of common stock to settle individual employees' tax liabilities associated with vesting of restricted stock awards These decreases were partially offset by $56.4 million provided by operating activities.

Operating Activities

During the six months ended December 27, 2019, we generated $56.4 million in cash from operating activities, an increase of $11.0 million when compared to the six months ended December 31, 2018. The increase in cash generated by operating activities was primarily the result of higher comparable net income, higher cash collections on outstanding accounts receivable and lower inventory purchases. These increases were partially offset by increased prepaid income taxes, decreased accounts payable, accrued expenses and income taxes payable and deferred revenue and customer advances.

Investing Activities

During the six months ended December 27, 2019, we invested $117.4 million compared to $55.8 million during the six months ended December 31, 2018. The increase was driven by the acquisition of APC during the six months ended December 27, 2019 and an additional $10.1 million invested in purchases of property and equipment, primarily related to the build out of our trusted custom microelectronics business during the six months ended December 27, 2019, as compared to the six months ended December 31, 2018.

Financing Activities

During the six months ended December 27, 2019, we had $14.9 million in cash used in financing activities compared to $37.9 million in cash provided by financing activities during the six months ended December 31, 2018. The $52.8 million decrease was primarily due to no borrowings on the Revolver and $8.0 million of additional payments related to the purchase and retirement of common stock used to settle individual employees' tax liabilities associated with vesting of restricted stock awards during the six months ended December 27, 2019, as compared to the six months ended December 31, 2018.

COMMITMENTS, CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The following is a schedule of our commitments and contractual obligations outstanding at December 27, 2019:

(In thousands)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Purchase obligations	$ 97,083	$ 97,083	$ —	$ —	$ —
Operating leases	79,051	10,074	25,509	20,007	23,461
	$ 176,134	$ 107,157	$ 25,509	$ 20,007	$ 23,461

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 $97.1 million at December 27, 2019.

We have a liability at December 27, 2019 of $1.4 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 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 or exercise of stock options. 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 and financing costs, fair value adjustments from purchase accounting, litigation and settlement income and expense, 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, the most directly comparable GAAP financial measure, to our adjusted EBITDA:

	Second Quarters Ended		Six Months Ended	
(In thousands)	**December 27, 2019**	**December 31, 2018**	**December 27, 2019**	**December 31, 2018**
Net income	$ 15,676	$ 12,383	$ 34,923	$ 19,862
Other non-operating adjustments, net	(549)	(18)	(248)	347
Interest (income) expense, net	(312)	2,125	(1,499)	4,318
Income tax provision	5,110	4,483	3,092	7,612
Depreciation	4,555	4,769	8,917	9,134
Amortization of intangible assets	7,992	6,939	15,011	14,120
Restructuring and other charges[1]	1,101	23	1,749	527
Impairment of long-lived assets	—	—	—	—
Acquisition and financing costs	1,882	762	4,118	1,805
Fair value adjustments from purchase accounting[2]	600	—	600	620
Litigation and settlement expense, net	142	179	455	179
Stock-based and other non-cash compensation expense	6,639	5,338	12,415	10,081
Adjusted EBITDA	$ 42,836	$ 36,983	$ 79,533	$ 68,605

(1) Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. We believe these items are non-routine and may not be indicative of ongoing operating results.
(2) For the second quarter and six months ended December 27, 2019, fair value adjustments from purchase accounting relate to APC inventory step-up amortization. For the six months ended December 31, 2018, fair value adjustments from purchase accounting relate to Germane inventory step-up amortization.

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 amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition and financing costs, fair value adjustments from purchase accounting, litigation and settlement income and expense, 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 and diluted earnings per share, the most directly comparable GAAP measures, to adjusted income and adjusted EPS:

	Second Quarters Ended			
(In thousands, except per share data)	**December 27, 2019**		**December 31, 2018**	
Net income and diluted earnings per share	$ 15,676	$ 0.29	$ 12,383	$ 0.26
Amortization of intangible assets	7,992		6,939	
Restructuring and other charges(1)	1,101		23	
Impairment of long-lived assets	—		—	
Acquisition and financing costs	1,882		762	
Fair value adjustments from purchase accounting(2)	600		—	
Litigation and settlement expense, net	142		179	
Stock-based and other non-cash compensation expense	6,639		5,338	
Impact to income taxes(3)	(4,504)		(3,009)	
Adjusted income and adjusted earnings per share	$ 29,528	$ 0.54	$ 22,615	$ 0.47
Diluted weighted-average shares outstanding		55,001		47,705

(1) Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. We believe these items are non-routine and may not be indicative of ongoing operating results.
(2) For the second quarter ended December 27, 2019, fair value adjustments from purchase accounting relate to APC inventory step-up amortization.
(3) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The impact to income taxes includes the impact to the effective tax rate, current tax provision and deferred tax provision.

(In thousands, except per share data)	Six Months Ended							
	December 27, 2019				December 31, 2018			
Net income and earnings per share	$	34,923	$	0.63	$	19,862	$	0.42
Amortization of intangible assets		15,011				14,120		
Restructuring and other charges(1)		1,749				527		
Impairment of long-lived assets		—				—		
Acquisition and financing costs		4,118				1,805		
Fair value adjustments from purchase accounting(2)		600				620		
Litigation and settlement expense, net		455				179		
Stock-based and other non-cash compensation expense		12,415				10,081		
Impact to income taxes(3)		(15,353)				(6,082)		
Adjusted income and adjusted earnings per share	$	53,918	$	0.98	$	41,112	$	0.86
Diluted weighted-average shares outstanding				55,037				47,696

(1) Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. We believe these items are non-routine and may not be indicative of ongoing operating results.
(2) For the six months ended December 27, 2019, fair value adjustments from purchase accounting relate to APC inventory step-up amortization. For the six months ended December 31, 2018, fair value adjustments from purchase accounting relate to Germane inventory step-up amortization.
(3) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The impact to income taxes includes the impact to the effective tax rate, current tax provision and deferred tax provision.

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 provided by operating activities, the most directly comparable GAAP financial measure, to free cash flow:

(In thousands)	Second Quarters Ended				Six Months Ended			
	December 27, 2019		December 31, 2018		December 27, 2019		December 31, 2018	
Cash provided by operating activities	$	32,066	$	25,301	$	56,376	$	45,330
Purchase of property and equipment		(11,324)		(7,075)		(20,919)		(10,802)
Free cash flow	$	20,742	$	18,226	$	35,457	$	34,528

Organic revenue and acquired revenue are non-GAAP measures for reporting 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 table reconciles the most directly comparable GAAP financial measure to the non-GAAP financial measure for the second quarters ended December 27, 2019 and December 31, 2018, respectively:

(In thousands)	December 27, 2019	As a % of Total Net Revenue	December 31, 2018	As a % of Total Net Revenue	$ Change	% Change
Organic revenue	$ 177,583	92 %	$ 159,089	100 %	$ 18,494	12 %
Acquired revenue	16,330	8 %	—	— %	16,330	100 %
Total revenues	$ 193,913	100 %	$ 159,089	100 %	$ 34,824	22 %

The following table reconciles the most directly comparable GAAP financial measure to the non-GAAP financial measure for the six months ended December 27, 2019 and December 31, 2018, respectively:

(In thousands)	December 27, 2019	As a % of Total Net Revenue	December 31, 2018	As a % of Total Net Revenue	$ Change	% Change
Organic revenue	$ 335,637	90 %	$ 294,151	97 %	$ 41,486	14 %
Acquired revenue	35,580	10 %	8,994	3 %	26,586	296 %
Total revenues	$ 371,217	100 %	$ 303,145	100 %	$ 68,072	22 %

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, an amendment of the FASB Accounting Standards Codification. This ASU eliminates the requirement to measure the implied fair value of goodwill by assigning the fair value of a reporting unit to all assets and liabilities within that unit ("the Step 2 test") from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited by the amount of goodwill in that reporting unit. For public business entities, the new standard is effective for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The ASU requires prospective adoption and permits early adoption for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect this guidance to have a material impact to its consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects for Accumulated Other Comprehensive Income*, an amendment of the FASB Accounting Standards Codification. This ASU permits a company to reclassify the disproportionate income tax effects of the Tax Cuts and Jobs Act of 2017 on items within AOCI to retained earnings. The amounts applicable for reclassification should include the effect of the change in the U.S. Federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of the Tax Cuts and Jobs Act of 2017 related to the items remaining in AOCI. The effect of the change in the U.S. Federal corporate income tax rate on gross valuation allowances that were originally charged to income from continuing operations shall not be included. The Company has determined that there is no activity that falls within the scope of this ASU.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715) Changes to the Disclosure Requirements for Defined Benefit Plans*, an amendment of the FASB Accounting Standards Codification. The amendments in this ASU remove disclosures that no longer are considered cost-beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. For public business entities, the standard is effective for fiscal years ending after December 15, 2020. The ASU requires retrospective adoption and permits early adoption for all entities. The Company does not expect this guidance to have a material impact to its consolidated financial statements or related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*, an amendment of the FASB Accounting Standards Codification. The ASU provides guidance to determine whether to capitalize implementation costs of a cloud computing arrangement that is a service contract or expense as incurred. Costs of arrangements that do not include a software license should be accounted for as a service contract and expensed as incurred. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The ASU permits two methods of adoption: prospectively to all implementation costs incurred after the date of adoption, or retrospectively to each prior reporting period presented. The Company does not expect this guidance to have a material impact to its consolidated financial statements or related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, an amendment of the FASB Accounting Standards Codification. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions for intraperiod tax allocations and deferred tax liabilities for equity method investments and adds guidance whether a step-up in tax basis of goodwill relates to a business combination or a separate transaction. This ASU is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. We are currently evaluating the effect that ASU 2019-12 will have on our consolidated financial statements and related disclosures.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2019, we adopted ASC 842, *Leases*, ("ASC 842"), which requires lessees to recognize a right-of-use asset and lease liability for most lease arrangements. This ASU supersedes existing lease guidance, including ASC 840, *Leases (Topic 840)*. The standard mandates a modified retrospective transition method for all entities and early adoption is permitted. This ASU, among other things, allows companies to elect an optional transition method to apply the new lease standard through a cumulative-effect adjustment in the period of adoption. We adopted ASC 842 using the optional transition method and, as a result, did not recast prior period unaudited consolidated comparative financial statements. All prior period amounts and disclosures remain presented under ASC 840. We elected the package of practical expedients which allows us to not reassess: 1) whether any expired or existing contracts are or contain leases; 2) the lease classification for any expired or existing leases; and 3) initial direct costs for any existing leases. We also elected the hindsight practical expedient, permitting the use of hindsight when determining the lease term and assessing impairment of ROU assets. Adoption of the new standard resulted in additional lease assets and lease liabilities on the Unaudited Consolidated Balance Sheet with no cumulative impact to retained earnings and did not have a material impact on our Consolidated Statements of Operations and Comprehensive Income or Consolidated Statements of Cash Flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our exposure to market risk from June 30, 2019 to December 27, 2019.

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 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 Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 27, 2019. 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 December 27, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, management is in the process of integrating the recently acquired APC business into our overall internal control over financial reporting environment.

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 our self 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.

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 June 30, 2019. There have been no material changes from the factors disclosed in our 2019 Annual Report on Form 10-K filed on August 15, 2019, although we may disclose changes to such factors or disclose 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

+ Furnished herewith. This certificate shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, 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 or the Securities Exchange Act of 1934.

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 February 4, 2020.

MERCURY SYSTEMS, INC.

By: /S/ MICHAEL D. RUPPERT

Michael D. Ruppert
Executive Vice President,
Chief Financial Officer, and Treasurer

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.

Date: February 4, 2020

/S/ MARK ASLETT

Mark Aslett

PRESIDENT AND CHIEF EXECUTIVE OFFICER
[PRINCIPAL EXECUTIVE OFFICER]

EXHIBIT 31.2

CERTIFICATION

I, Michael D. Ruppert, 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.

Date: February 4, 2020

/S/ MICHAEL D. RUPPERT

Michael D. Ruppert
EXECUTIVE VICE PRESIDENT,
CHIEF FINANCIAL OFFICER, AND TREASURER
[PRINCIPAL FINANCIAL OFFICER]

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 December 27, 2019 as filed with the Securities and Exchange Commission (the "Report"), we, Mark Aslett, President and Chief Executive Officer of the Company, and Michael D. Ruppert, Executive Vice President, 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: February 4, 2020

/S/ MARK ASLETT

Mark Aslett
PRESIDENT AND CHIEF EXECUTIVE OFFICER

/S/ MICHAEL D. RUPPERT

Michael D. Ruppert
EXECUTIVE VICE PRESIDENT,
CHIEF FINANCIAL OFFICER, AND TREASURER