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 January 1, 2021
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. ☐

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, 2021 56,142,029 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)

	January 1, 2021	July 3, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 109,113	$ 226,838
Restricted cash	61,626	—
Accounts receivable, net of allowance for credit losses of $1,495 and $1,451 at January 1, 2021 and July 3, 2020, respectively	120,852	120,438
Unbilled receivables and costs in excess of billings	119,346	90,289
Inventory	218,410	178,093
Prepaid income taxes	700	2,498
Prepaid expenses and other current assets	15,686	16,613
Total current assets	645,733	634,769
Property and equipment, net	125,397	87,737
Goodwill	783,302	614,076
Intangible assets, net	310,345	208,748
Operating lease right-of-use assets	79,125	60,613
Other non-current assets	5,266	4,777
Total assets	$ 1,949,168	$ 1,610,720
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 48,175	$ 41,877
Deferred consideration	61,626	—
Accrued expenses	26,540	23,794
Accrued compensation	42,065	41,270
Deferred revenues and customer advances	33,447	18,974
Total current liabilities	211,853	125,915
Deferred income taxes	42,770	13,889
Income taxes payable	4,117	4,117
Long-term debt	160,000	—
Operating lease liabilities	84,335	66,981
Other non-current liabilities	15,462	15,034
Total liabilities	518,537	225,936
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; 55,128,763 and 54,702,322 shares issued and outstanding at January 1, 2021 and July 3, 2020, respectively	551	547
Additional paid-in capital	1,092,723	1,074,667
Retained earnings	340,939	312,455
Accumulated other comprehensive loss	(3,582)	(2,885)
Total shareholders' equity	1,430,631	1,384,784
Total liabilities and shareholders' equity	$ 1,949,168	$ 1,610,720

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	
	January 1, 2021	December 27, 2019	January 1, 2021	December 27, 2019
Net revenues	$ 210,676	$ 193,913	$ 416,297	$ 371,217
Cost of revenues	122,009	105,407	239,511	204,311
Gross margin	88,667	88,506	176,786	166,906
Operating expenses:				
Selling, general and administrative	31,596	32,804	64,500	62,774
Research and development	28,128	24,660	55,545	46,530
Amortization of intangible assets	7,643	7,992	15,374	15,011
Restructuring and other charges	951	1,101	2,248	1,749
Acquisition costs and other related expenses	2,236	1,124	2,236	2,541
Total operating expenses	70,554	67,681	139,903	128,605
Income from operations	18,113	20,825	36,883	38,301
Interest income	60	312	132	1,499
Interest expense	(73)	—	(73)	—
Other expense, net	(981)	(351)	(1,827)	(1,785)
Income before income taxes	17,119	20,786	35,115	38,015
Income tax provision	4,433	5,110	6,631	3,092
Net income	$ 12,686	$ 15,676	$ 28,484	$ 34,923
Basic net earnings per share	$ 0.23	$ 0.29	$ 0.52	$ 0.64
Diluted net earnings per share	$ 0.23	$ 0.29	$ 0.51	$ 0.63
Weighted-average shares outstanding:				
Basic	55,070	54,548	54,976	54,468
Diluted	55,434	55,001	55,385	55,037
Comprehensive income:				
Net income	$ 12,686	$ 15,676	$ 28,484	$ 34,923
Foreign currency translation adjustments	(658)	(192)	(759)	(117)
Pension benefit plan, net of tax	31	8	62	15
Total other comprehensive loss, net of tax	(627)	(184)	(697)	(102)
Total comprehensive income	$ 12,059	$ 15,492	$ 27,787	$ 34,821

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 January 1, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
Balance at October 2, 2020	55,045	$ 550	$ 1,082,044	$ 328,253	$ (2,955)	$ 1,407,892
Issuance of common stock under employee stock incentive plans	38	1	1	—	—	2
Issuance of common stock under employee stock purchase plan	46	—	3,184	—	—	3,184
Stock-based compensation	—	—	7,494	—	—	7,494
Net income	—	—	—	12,686	—	12,686
Other comprehensive loss	—	—	—	—	(627)	(627)
Balance at January 1, 2021	55,129	$ 551	$ 1,092,723	$ 340,939	$ (3,582)	$ 1,430,631

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 Six Months Ended January 1, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
Balance at July 3, 2020	54,702	$ 547	$ 1,074,667	$ 312,455	$ (2,885)	$ 1,384,784
Issuance of common stock under employee stock incentive plans	382	4	—	—	—	4
Issuance of common stock under employee stock purchase plan	46	—	3,184	—	—	3,184
Purchase and retirement of common stock	(1)	—	(66)	—	—	(66)
Stock-based compensation	—	—	14,938	—	—	14,938
Net income	—	—	—	28,484	—	28,484
Other comprehensive loss	—	—	—	—	(697)	(697)
Balance at January 1, 2021	55,129	$ 551	$ 1,092,723	$ 340,939	$ (3,582)	$ 1,430,631

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

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	
	January 1, 2021	December 27, 2019
Cash flows from operating activities:		
Net income	$ 28,484	$ 34,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	26,281	23,928
Stock-based compensation expense	14,454	12,190
(Benefit) provision for deferred income taxes	(3,773)	593
Other non-cash items	2,217	1,255
Changes in operating assets and liabilities, net of effects of businesses acquired:		
Accounts receivable, unbilled receivables, and costs in excess of billings	(6,802)	(13,512)
Inventory	(29,121)	(5,371)
Prepaid income taxes	1,809	(5,356)
Prepaid expenses and other current assets	1,052	1,137
Other non-current assets	698	(63)
Accounts payable, accrued expenses, and accrued compensation	(1,924)	(425)
Deferred revenues and customer advances	13,719	6,650
Income taxes payable	(131)	(2,803)
Other non-current liabilities	(95)	3,230
Net cash provided by operating activities	46,868	56,376
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(243,637)	(96,502)
Purchases of property and equipment	(24,753)	(20,919)
Proceeds from sale of investment	1,538	—
Net cash used in investing activities	(266,852)	(117,421)
Cash flows from financing activities:		
Proceeds from employee stock plans	3,188	3
Borrowings under credit facilities	160,000	—
Purchase and retirement of common stock	(66)	(14,937)
Net cash provided by (used in) financing activities	163,122	(14,934)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	763	84
Net decrease in cash, cash equivalents and restricted cash	(56,099)	(75,895)
Cash, cash equivalents and restricted cash at beginning of period	226,838	257,932
Cash, cash equivalents and restricted cash at end of period	$ 170,739	$ 182,037
Cash paid during the period for:		
Interest	$ —	$ —
Income taxes	$ 7,942	$ 10,454
Supplemental disclosures—non-cash activities:		
Non-cash investing activity	$ 427	$ —

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

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

A. Description of Business

Mercury Systems, Inc. (the "Company" or "Mercury") is a leading technology company serving the aerospace and defense industry, positioned at the intersection of high-tech and defense. Headquartered in Andover, Massachusetts, the Company delivers solutions that power a broad range of aerospace and defense programs, optimized for mission success in some of the most challenging and demanding environments. The Company envisions, creates and delivers innovative technology solutions purpose-built to meet its customers' most-pressing high-tech needs, including those specific to the defense community.

As a leading manufacturer of essential components, modules and subsystems, the Company sells to defense prime contractors, the U.S. government and original equipment manufacturer ("OEM") commercial aerospace companies. The Company has built a trusted, contemporary portfolio of proven product solutions purpose-built for aerospace and defense that it believes meets and exceeds the performance needs of its defense and commercial customers. Customers add their own applications and algorithms to the Company's specialized, secure and innovative pre-integrated solutions. This allows them to complete their full system by integrating with their platform the sensor technology and, in some cases, the processing from Mercury. The Company's products and solutions are deployed in more than 300 programs with over 25 different defense prime contractors and commercial aviation customers.

The Company's transformational business model accelerates the process of making new technology profoundly more accessible to its customers by bridging the gap between commercial technology and aerospace and defense applications. The Company's long-standing deep relationships with leading high-tech companies, coupled with the Company's high level of research and development ("R&D") investments and industry-leading trusted and secure design and manufacturing capabilities, are the foundational tenets of this highly successful model.

The Company's capabilities, technology and R&D investment strategy combine to differentiate Mercury in its industry. The Company's 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, subsystems and custom microelectronics. The Company maintains its technological edge by investing in critical capabilities and intellectual property in processing and RF, leveraging open standards and open architectures to adapt quickly those building blocks into solutions for highly data-intensive applications, including emerging needs in areas such as artificial intelligence.

The Company's mission critical solutions are deployed by its customers for a variety of applications including command, control, communications, computers, intelligence, surveillance and reconnaissance, electronic intelligence, avionics, electro-optical/infrared, electronic warfare, weapons and missile defense, hypersonics and radar.

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

B. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company in accordance with Generally Accepted Accounting Principles ("GAAP") in the United States of America for interim financial information and with the instructions to the Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted pursuant to those rules and regulations; however, in the opinion of management the financial information reflects all adjustments, consisting of adjustments of a normal recurring nature, necessary for fair presentation. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the fiscal year ended July 3, 2020 which are contained in the Company's Annual Report on Form 10-K filed with the SEC on August 18, 2020. The results for the second quarter and six months ended January 1, 2021 are not necessarily indicative of the results to be expected for the full fiscal year.

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

All references to the second quarter of fiscal 2021 are to the quarter ended January 1, 2021. There were 13-weeks during the second quarters ended January 1, 2021 and December 27, 2019, respectively. There were approximately 26-weeks during the six months ended January 1, 2021 and December 27, 2019, respectively.

USE OF ESTIMATES

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

BUSINESS COMBINATIONS

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

FOREIGN CURRENCY

Local currencies are the functional currency for the Company's subsidiaries in Switzerland, the United Kingdom, France, 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 ("AOCL") 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.

REVENUE RECOGNITION

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, ("ASC 606"). Revenues are derived from the sales of products that are grouped into one of the following three categories: (i) components; (ii) modules and sub-assemblies; and (iii) integrated subsystems. The Company also generates revenues from the performance of services, including systems engineering support, consulting, maintenance and other support, testing and installation. Each promised good or service within a contract is accounted for separately under the guidance of ASC 606 if they are distinct. Promised goods or services not meeting the criteria for being a distinct performance obligation are bundled into a single performance obligation with other goods or services that together meet the criteria for being distinct. The appropriate allocation of the transaction price and recognition of revenue is then determined for the bundled performance obligation.

Revenue recognized at a point in time generally relates to contracts that include a combination of components, modules and sub-assemblies, integrated subsystems and related system integration or other services. Contracts with distinct performance obligations recognized at a point in time, with or without an allocation of the transaction price, totaled 61% and 62% of revenues for the second quarter and six months ended January 1, 2021, respectively. 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.

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 39% and 38% of total revenues for the second quarter and six months ended January 1, 2021, respectively. 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.

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

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 $119,346 and $90,289 as of January 1, 2021 and July 3, 2020, respectively. The contract asset balance increased due to growth in revenue recognized and timing of billable events under long-term contracts over time during the six months ended January 1, 2021. The contract liability balances were $33,887 and $19,892 as of January 1, 2021 and July 3, 2020, respectively. The increase was due to a greater number of long-term contracts with milestone billings across multiple programs.

Revenue recognized for the second quarter and six months ended January 1, 2021 that was included in the contract liability balance at July 3, 2020 was $4,336 and $13,366, respectively. Revenue recognized for the second quarter and six months ended December 27, 2019 that was included in the contract liability balance at June 30, 2019 was $2,898 and $8,274, 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 January 1, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was $410,275. The Company expects to recognize approximately 69% 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	
	January 1, 2021	December 27, 2019	January 1, 2021	December 27, 2019
Basic weighted-average shares outstanding	55,070	54,548	54,976	54,468
Effect of dilutive equity instruments	364	453	409	569
Diluted weighted-average shares outstanding	55,434	55,001	55,385	55,037

Equity instruments to purchase 114 and 2 shares of common stock were not included in the calculation of diluted net earnings per share for the second quarter and six months ended January 1, 2021, respectively, because the equity instruments were anti-dilutive. 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, respectively, because the equity instruments were anti-dilutive.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 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 add guidance as to 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. The Company is currently evaluating the effect that ASU 2019-12 will have on its consolidated financial statements and related disclosures.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective July 4, 2020, the Company adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. This ASU requires an entity to record an allowance for credit losses for certain financial instruments and financial assets, including trade receivables, based on expected losses rather than incurred losses. The Company will rely on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount and will exercise judgment in determining the relevant information and estimation methods that are appropriate in measurement of the credit losses. This adoption did not have a material impact to the Company's consolidated financial statements or related disclosures.

Effective July 4, 2020 the Company adopted ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. 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. This adoption did not have a material impact on the Company's consolidated financial statements or related disclosures.

Effective July 4, 2020 the Company adopted 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 adoption did not have a material impact to the Company's consolidated financial statements or related disclosures.

Effective October 3, 2020, the Company adopted SEC Final Rule Release No. 33-10786, *Amendments to Financial Disclosures About Acquired and Disposed Businesses,* which includes amendments to its rules and forms related to the disclosure of financial information regarding acquired or disposed businesses. The amendments are intended to improve the financial information about acquired or disposed businesses provided to investors, facilitate more timely access to capital, and reduce the complexity and costs of preparing disclosures. Among other changes, the amendments impact SEC rules relating to: the definition of "significant" subsidiaries, requirements to provide financial statements for "significant" acquisitions, and the formulation and usage of pro forma financial information. The final rule is applicable for fiscal years beginning after December 31, 2020, with early adoption permitted as long as all amendments are adopted in their entirety. The Company has early adopted this final rule in conjunction with our acquisition of Physical Optics Corporation ("POC") on December 30, 2020. This adoption did not have a material impact on the Company's consolidated financial statements or related disclosures.

C. Acquisitions

PHYSICAL OPTICS CORPORATION ACQUISITION

On December 7, 2020, the Company signed a definitive agreement to acquire POC for a purchase price of $310,000, subject to net working capital and net debt adjustments. On December 30, 2020, the transaction closed and the Company acquired POC. Based in Torrance, California, POC more than doubles the Company's global avionics business and expands its collective footprint in the platform and mission management market. The Company funded the acquisition through a combination of cash on hand and the Company's existing revolving credit facility (the "Revolver").

As of January 1, 2021, the Company held $61,626 of Restricted cash and recorded a Deferred consideration liability for a purchase price payout to the employee shareholders of POC. This payout was made during the third quarter of fiscal 2021.

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

		Amounts
Consideration transferred		
Cash paid at closing	$	251,229
Additional consideration to be transferred		61,626
Working capital and net debt adjustment		(4,737)
Less cash acquired		(2,855)
Net purchase price	$	305,263
Estimated fair value of tangible assets acquired and liabilities assumed		
Cash	$	2,855
Accounts receivable		21,632
Inventory		11,095
Fixed assets		23,615
Other current and non-current assets		23,397
Accounts payable		(3,777)
Accrued expenses		(390)
Other current and non-current liabilities		(56,659)
Estimated fair value of net tangible assets acquired		21,768
Estimated fair value of identifiable intangible assets		117,470
Estimated goodwill		168,880
Estimated fair value of net assets acquired		308,118
Less cash acquired		(2,855)
Net purchase price	$	305,263

The amounts above represent the preliminary fair value estimates as of January 1, 2021 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 $69,327 with a useful life of 11 years, completed technology of $40,055 with a useful life of 10 years and backlog of $8,088 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 estimated goodwill of $168,880 largely reflects the potential synergies and expansion of the Company’s offerings across product lines and markets complementary to the Company’s existing products and markets and is not deductible for tax purposes. The goodwill from this acquisition is reported in the Mission reporting unit. The Company has not furnished pro forma information relating to POC because such information is not material to the Company’s financial results.

The acquisition had an immaterial impact to the Company’s results of operations for the second quarter and six months ended January 1, 2021, given the proximity of the acquisition date to quarter-end.

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:

		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
Fair value of tangible assets acquired and liabilities assumed		
Cash	$	826
Accounts receivable		3,726
Inventory		11,233
Fixed assets		690
Other current and non-current assets		3,494
Accounts payable		(1,554)
Accrued expenses		(1,457)
Other current and non-current liabilities		(5,852)
Fair value of net tangible assets acquired		11,106
Fair value of identifiable intangible assets		33,200
Goodwill		53,022
Fair value of net assets acquired		97,328
Less cash acquired		(826)
Net purchase price	$	96,502

On September 23, 2020, the measurement period for APC expired. The identifiable intangible assets include customer relationships of $20,600 with a useful life of 11 years, completed technology of $10,400 with a useful life of 11 years and backlog of $2,200 with a useful life of two years.

The goodwill of $53,022 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 Mission 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 January 1, 2021, the Company had $49,744 of goodwill deductible for tax purposes.

D. Fair Value of Financial Instruments

During the second quarter and six months ended January 1, 2021, the Company received gross proceeds and recorded a loss on sale of a cost-method investment of $1,538 and $426, respectively. The loss on sale of investment is included within Other expense, net in the Consolidated Statements of Operations and Comprehensive Income for the second quarter and six months ended January 1, 2021. The fair value of the investment was based on a quoted price of identical instruments in an active market and was recorded at cost within Other non-current assets in the Consolidated Balance Sheet prior to its sale.

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 Company determined the carrying value of long-term debt approximated fair value due to variable interest rates charged on the borrowings, which reprice frequently.

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:

	January 1, 2021	July 3, 2020
Raw materials	$ 138,266	$ 111,225
Work in process	59,220	49,647
Finished goods	20,924	17,221
Total	$ 218,410	$ 178,093

The $40,317 increase in inventory was due to an increase in overall demand, especially for larger, more complex integrated subsystems, the acquisition of POC and the advanced purchases of inventory intended to mitigate potential disruptions to the supply chain or unforeseen changes in customer behavior resulting from the COVID pandemic.

F. Goodwill

During the first quarter of fiscal 2021, the Company reorganized its internal reporting unit structure to align with the Company's market and brand strategy as well as promote scale as the organization continues to grow.

The following table sets forth the changes in the carrying amount of goodwill for the six months ended January 1, 2021:

	Total
Balance at July 3, 2020	$ 614,076
Goodwill adjustment for the APC acquisition	346
Goodwill arising from the POC acquisition	168,880
Balance at January 1, 2021	$ 783,302

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

G. Restructuring

Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. During the six months ended January 1, 2021, the Company incurred net restructuring and other charges of $2,248 primarily related to severance costs associated with the elimination of 42 positions across the manufacturing, SG&A and R&D functions. These charges related to changing market and business conditions including talent shifts and resource redundancy resulting from the internal reorganization the Company completed in the first quarter.

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.

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

	Severance & Related
Restructuring liability at July 3, 2020	$ 597
Restructuring and other charges	2,248
Cash paid	(1,528)
Restructuring liability at January 1, 2021	$ 1,317

H. Income Taxes

The Company recorded an income tax provision of $4,433 and $5,110 on income before income taxes of $17,119 and $20,786 for the second quarters ended January 1, 2021 and December 27, 2019, respectively. The Company recorded an income tax provision of $6,631 and $3,092 on income before income taxes of $35,115 and $38,015 for the six months ended January 1, 2021 and December 27, 2019, respectively.

During the second quarters ended January 1, 2021 and December 27, 2019, the Company recognized a discrete tax benefit of $130 and $353, respectively, related to excess tax benefits on stock-based compensation. During the six months ended January 1, 2021 and December 27, 2019, the Company recognized a discrete tax benefit of $2,610 and $6,480, respectively, related to excess tax benefits on stock-based compensation.

The effective tax rate for the second quarters and six months ended January 1, 2021 and December 27, 2019 differed from the Federal statutory rate primarily due to Federal and State research and development credits, excess tax benefits related to stock-based compensation, non-deductible compensation and state taxes.

During the second quarter ended January 1, 2021, there were no material changes 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 January 1, 2021, the Company's outstanding balance of unamortized deferred financing costs was $3,697, which is being amortized to Other expense, net in the Consolidated Statements of Operations and Comprehensive Income on a straight line basis over the term of the Revolver. The Company drew $160,000 from the Revolver to facilitate the acquisition of POC.

As of January 1, 2021, the Company was in compliance with all covenants and conditions under the Revolver and there were outstanding borrowings of $160,000 against the Revolver, resulting in interest expense of $73 for both the second quarter and six months ended January 1, 2021. There were outstanding letters of credit of $799 as of January 1, 2021.

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 January 1, 2021 was a net liability of $12,948, which is recorded in Other non-current liabilities on the Consolidated Balance Sheet. The Company recorded a net gain of $31 and $62 in AOCL during the second quarter and six months ended January 1, 2021. The Company recorded a net gain of $8 and $15 in AOCL during the second quarter and six months ended December 27, 2019. The Company recognized net periodic benefit costs of $420 and $833 associated with the Plan for the second quarter and six months ended January 1, 2021, 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's total expected employer contributions to the Plan during fiscal 2021 are $957.

K. Stock-Based Compensation

STOCK INCENTIVE PLANS

At January 1, 2021, the aggregate number of shares authorized for issuance under the Company’s Amended and Restated 2018 Stock Incentive Plan (the “2018 Plan”) is 6,782 shares, including 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”) and 3,000 shares approved by the Company's Shareholders on October 28, 2020. The 2018 Plan replaced the 2005 Plan. The shares authorized for issuance under the 2018 Plan will continue to be increased by any future cancellations, forfeitures or terminations (other than by exercise) of awards under the 2005 Plan. The foregoing does not affect any outstanding awards under the 2005 Plan, which remain in full force and effect in accordance with their terms. The 2018 Plan provides for the grant of non-qualified and incentive stock options, restricted stock, stock appreciation rights and deferred stock awards to employees and non-employees. Stock options must be granted with an exercise price of not less than 100% of the fair value of the Company’s common stock on the date of grant and the options generally have a term of seven years. There were 4,669 shares available for future grant under the 2018 Plan at January 1, 2021.

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

EMPLOYEE STOCK PURCHASE PLAN

At January 1, 2021, the aggregate number of shares authorized for issuance under the Company’s 1997 Employee Stock Purchase Plan, as amended and restated (“ESPP”), is 2,300 shares, including 500 shares approved by the Company's Shareholders on October 28, 2020. Under the ESPP, rights are granted to purchase shares of common stock at 85% of the lesser of the market value of such shares at either the beginning or the end of each six-month offering period. The ESPP permits employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee’s compensation as defined in the ESPP. There were 46 shares issued under the ESPP during the six months ended January 1, 2021. There were no shares issued under the ESPP during the six months ended December 27, 2019. Shares available for future purchase under the ESPP totaled 483 at January 1, 2021.

STOCK OPTION AND AWARD ACTIVITY

The following table summarizes activity of the Company’s stock option plans since July 3, 2020:

	Options Outstanding		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at July 3, 2020	3	$ 5.52	1.12
Granted	—	—	
Exercised	(1)	5.52	
Canceled	—	—	
Outstanding at January 1, 2021	2	$ 5.52	0.62

The following table summarizes the status of the Company’s non-vested restricted stock awards and deferred stock awards since July 3, 2020:

	Non-vested Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at July 3, 2020	957	$ 61.59
Granted	481	76.94
Vested	(381)	52.44
Forfeited	(21)	66.74
Outstanding at January 1, 2021	1,036	$ 70.00

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 $1,026 and $542 of capitalized stock-based compensation expense on the Consolidated Balance Sheets for the periods ended January 1, 2021 and July 3, 2020, 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	
	January 1, 2021	December 27, 2019	January 1, 2021	December 27, 2019
Cost of revenues	$ 369	$ 200	$ 664	$ 341
Selling, general and administrative	5,619	5,384	11,295	10,027
Research and development	1,282	947	2,495	1,822
Stock-based compensation expense before tax	7,270	6,531	14,454	12,190
Income taxes	(1,890)	(1,698)	(3,758)	(3,169)
Stock-based compensation expense, net of income taxes	$ 5,380	$ 4,833	$ 10,696	$ 9,021

L. Operating Segment, Geographic Information and Significant Customers

Operating segments are defined as components of an enterprise evaluated regularly by the Company's CODM in deciding how to allocate resources and assess performance. During the first quarter of fiscal 2021, the Company reorganized its internal reporting unit structure to align with the Company's market and brand strategy as well as promote scale as the organization continues to grow. The Company evaluated this reorganization under ASC 280 to determine whether this change has impacted the Company's single operating and reportable segment. The Company concluded this change had no effect given the CODM continues to evaluate and manage the Company on the basis of one operating and reportable segment. The Company utilized the management approach for determining its operating segment in accordance with ASC 280.

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

	U.S.	Europe	Asia Pacific	Eliminations	Total
SECOND QUARTER ENDED JANUARY 1, 2021					
Net revenues to unaffiliated customers	$ 197,773	$ 12,812	$ 91	$ —	$ 210,676
Inter-geographic revenues	636	564	—	(1,200)	—
Net revenues	$ 198,409	$ 13,376	$ 91	$ (1,200)	$ 210,676
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
SIX MONTHS ENDED JANUARY 1, 2021					
Net revenues to unaffiliated customers	$ 393,620	$ 22,475	$ 202	$ —	$ 416,297
Inter-geographic revenues	876	908	—	(1,784)	—
Net revenues	$ 394,496	$ 23,383	$ 202	$ (1,784)	$ 416,297
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

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

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

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

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

	Second Quarters Ended		Six Months Ended	
	January 1, 2021	December 27, 2019	January 1, 2021	December 27, 2019
Domestic[(1)]	$ 181,095	$ 171,624	$ 359,838	$ 329,099
International/Foreign Military Sales[(2)]	29,581	22,289	56,459	42,118
Total Net Revenue	$ 210,676	$ 193,913	$ 416,297	$ 371,217

(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	
	January 1, 2021	December 27, 2019	January 1, 2021	December 27, 2019
Radar[1]	$ 84,760	$ 48,328	$ 157,169	$ 86,247
Electronic Warfare[2]	28,672	36,139	65,560	72,196
Other Sensor & Effector[3]	24,005	26,512	47,100	54,402
Total Sensor & Effector	137,437	110,979	269,829	212,845
C4I[4]	58,359	57,778	112,140	106,789
Other[5]	14,880	25,156	34,328	51,583
Total Net Revenue	$ 210,676	$ 193,913	$ 416,297	$ 371,217

(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	
	January 1, 2021	December 27, 2019	January 1, 2021	December 27, 2019
Components[1]	$ 40,679	$ 60,310	$ 90,975	$ 113,729
Modules and Sub-assemblies[2]	34,993	29,524	52,459	64,764
Integrated Subsystems[3]	135,004	104,079	272,863	192,724
Total Net Revenue	$ 210,676	$ 193,913	$ 416,297	$ 371,217

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

	Second Quarters Ended		Six Months Ended	
	January 1, 2021	December 27, 2019	January 1, 2021	December 27, 2019
Airborne[1]	$ 91,662	$ 106,301	$ 178,911	$ 192,458
Land[2]	58,004	24,132	95,555	40,442
Naval[3]	36,559	32,441	82,841	72,151
Other[4]	24,451	31,039	58,990	66,166
Total Net Revenues	$ 210,676	$ 193,913	$ 416,297	$ 371,217

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

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

	U.S.	Europe	Asia Pacific	Eliminations	Total
January 1, 2021	$ 119,455	$ 5,935	$ 7	$ —	$ 125,397
July 3, 2020	$ 82,588	$ 5,144	$ 5	$ —	$ 87,737

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

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

	Second Quarters Ended		Six Months Ended	
	January 1, 2021	December 27, 2019	January 1, 2021	December 27, 2019
Raytheon Technologies	25 %	16 %	24 %	15 %
Lockheed Martin Corporation	12 %	16 %	15 %	17 %
Northrop Grumman Corporation	*	10 %	*	10 %
L3Harris Technologies	*	*	*	11 %
	37 %	42 %	39 %	53 %

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

While the Company typically has customers from which it derives 10% or more of its revenue, the sales to each of these customers are spread across multiple programs and platforms. There were no programs comprising 10% or more of the Company's revenues for the second quarters and six months ended January 1, 2021 and December 27, 2019.

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 January 1, 2021, 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 $132,021.

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. 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. As of January 1, 2021, the Company held $61,626 of Restricted cash and recorded a Deferred consideration liability for a purchase price payout to the employee shareholders of POC. This payout was made during the third quarter of fiscal 2021.

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

FORWARD-LOOKING STATEMENTS

From time to time, information provided, statements made by our employees or information included in our filings with the Securities and Exchange Commission ("SEC") may contain statements that are not historical facts but that are "forward-looking statements," which involve risks and uncertainties. You can identify these statements by the use of the words "may," "will," "could," "should," "would," "plans," "expects," "anticipates," "continue," "estimate," "project," "intend," "likely," "forecast," "probable," "potential," and similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, continued funding of defense programs, the timing and amounts of such funding, general economic and business conditions, including unforeseen weakness in the Company's markets, effects of epidemics and pandemics such as COVID, effects of any U.S. Federal government shutdown or extended continuing resolution, effects of continued geopolitical unrest and regional conflicts, competition, 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 July 3, 2020. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

OVERVIEW

Mercury Systems, Inc. is a leading technology company serving the aerospace and defense industry, positioned at the intersection of high-tech and defense. Headquartered in Andover, Massachusetts, we deliver solutions that power a broad range of aerospace and defense programs, optimized for mission success in some of the most challenging and demanding environments. We envision, create and deliver innovative technology solutions purpose-built to meet our customers' most-pressing high-tech needs, including those specific to the defense community.

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

Mercury's transformational business model accelerates the process of making new technology profoundly more accessible to our customers by bridging the gap between commercial technology and aerospace and defense applications. Our long-standing deep relationships with leading high-tech companies, coupled with our high level of R&D investments and industry-leading trusted and secure design and manufacturing capabilities, are the foundational tenets of this highly successful model.

Our 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, RF components, multi-function assemblies, subsystems and custom microelectronics. We maintain our technological edge by investing in critical capabilities and IP in processing and RF, leveraging open standards and open architectures to adapt quickly those building blocks into solutions for highly data-intensive applications, including emerging needs in areas such as AI.

Our mission critical solutions are deployed by our customers for a variety of applications including C4ISR, electronic intelligence, avionics, EO/IR, electronic warfare, weapons and missile defense, hypersonics and radar.

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

As of January 1, 2021, we had 2,376 employees. We employ hardware and software architects and design engineers, primarily engaged in engineering and research and product development activities to achieve our objectives to fully capitalize upon and maintain our technological leads in the high-performance, real-time sensor processing industry and in mission computing, platform management and other safety-critical applications. Our talent attraction, engagement and retention is critical to execute on our long-term strategy. We invest in our culture and values to drive employee engagement that turns ideas into action, delivering trusted and secure solutions at the speed of innovation. We believe that our success depends on our ability to embrace diversity company-wide and realize the benefits of a diverse workforce that includes a greater variety of solutions to problems, a broader collection of skills and experiences and an array of viewpoints to consider. Mercury is committed to providing an inclusive environment that respects the diversity of the world. We believe that the workforce required to grow our business and deliver creative solutions must be rich in diversity of thought, experience and culture. Our diversity and inclusion initiatives focus on building and maintaining the talent that will create cohesive and collaborative teams that drive innovation. These values will help our employees realize their full potentials at work to provide Innovation That Matters®.

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 January 1, 2021 were $210.7 million, $0.2 million, $12.7 million, $0.23, $0.54, and $45.3 million, respectively. Our consolidated revenues, acquired revenues, net income, diluted net earnings per share, adjusted EPS, and adjusted EBITDA for the six months ended January 1, 2021 were $416.3 million, $9.1 million, $28.5 million, $0.51, $1.05, and $88.1 million, respectively. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

OUR RESPONSE TO COVID

The COVID pandemic continues to impact people and countries around the world. This is a time of extraordinary uncertainty. It is also a time when the work we do in support of strategic national priorities is recognized as critical.

At Mercury, we remain focused on the four goals we established at the outset of the COVID crisis: to protect the health, safety, and livelihoods of our people; to mitigate or reduce operational and financial risks to the Company; to continue to deliver on our commitments to customers and shareholders; and to continue the mission-critical work Mercury does every day to support the ongoing security of our nation, our brave men and women in uniform, and the communities in which we all live.

To protect the health, safety, and livelihoods of our employees, we took immediate action on several fronts, instituting a variety of new policies and programs including, but not limited to, additional sick leave for COVID-related circumstances, a work-from-home policy for all employees who can perform their duties remotely as well as increasing overtime pay for eligible employees. We also established a relief fund, with an initial $1 million budget, to assist eligible Mercury employees, including temporary agency employees, experiencing unexpected financial burdens as a result of the COVID crisis. The intent of the Mercury COVID Relief Fund is to provide financial assistance to employees who may otherwise be unable to pay for basic necessities, unexpected care for immediate family members, or other urgent needs that promote their health and safety during the current COVID crisis.

As we have been designated an "essential business" as a part of the defense industrial base, during the year, our facilities continued to operate while complying with social distancing requirements consistent with Centers for Disease Control and Prevention ("CDC") guidelines and requirements. We implemented numerous preventive measures to maximize the safety of our facilities, including but not limited to, establishing physical segregation areas, implementing environmental cleaning and disinfection protocols in compliance with CDC guidelines and requirements, temperature and COVID testing at our facilities, and limiting non-essential site visits by internal and external visitors.

We will continue to monitor and assess our response to protect the health, safety and livelihoods of our people.

RESULTS OF OPERATIONS:

Results of operations for the second quarter ended January 1, 2021 includes only results from the December 30, 2020 acquisition date for Physical Optics Corporation ("POC"). Results of operations for the six months ended January 1, 2021 include full period results from the acquisition of American Panel Corporation ("APC") and only results from the acquisition date for POC which was acquired subsequent to July 3, 2020. Results of operations for the six months ended December 27, 2019 include only partial period results from the acquisition date for APC. Accordingly, the periods presented below are not directly comparable.

The second quarter ended January 1, 2021 compared to the second quarter ended December 27, 2019

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

(In thousands)	January 1, 2021	As a % of Total Net Revenue	December 27, 2019	As a % of Total Net Revenue
Net revenues	$ 210,676	100.0 %	$ 193,913	100.0 %
Cost of revenues	122,009	57.9	105,407	54.4
Gross margin	88,667	42.1	88,506	45.6
Operating expenses:				
Selling, general and administrative	31,596	15.0	32,804	16.9
Research and development	28,128	13.4	24,660	12.7
Amortization of intangible assets	7,643	3.6	7,992	4.1
Restructuring and other charges	951	0.5	1,101	0.6
Acquisition costs and other related expenses	2,236	1.0	1,124	0.6
Total operating expenses	70,554	33.5	67,681	34.9
Income from operations	18,113	8.6	20,825	10.7
Interest income	60	—	312	0.2
Interest expense	(73)	—	—	—
Other expense, net	(981)	(0.5)	(351)	(0.2)
Income before income taxes	17,119	8.1	20,786	10.7
Income tax provision	4,433	2.1	5,110	2.6
Net income	$ 12,686	6.0 %	$ 15,676	8.1 %

REVENUES

Total revenues increased $16.8 million, or 8.6%, to $210.7 million during the second quarter ended January 1, 2021, as compared to $193.9 million during the second quarter ended December 27, 2019, 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 $16.5 million of additional organic revenues which were predominantly driven by increased demand for integrated subsystems, across radar applications, and within land and naval platforms. These increases were partially offset by decreases to components across electronic warfare and other applications across airborne and other platforms. The organic revenues increase was driven by the LTAMDS program, a ground radar program, an airborne program and the Filthy Buzzard program, which were partially offset by decreases in a classified missile program, P8 and the Filthy Badger program. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

GROSS MARGIN

Gross margin was 42.1% for the second quarter ended January 1, 2021, a decrease of 350 basis points from the 45.6% gross margin achieved during the second quarter ended December 27, 2019. The lower gross margin was primarily driven by $3.1 million of direct COVID related expenses, as well as program mix and higher Customer Funded Research and Development ("CRAD"). These costs were partially offset by operational efficiencies and lower inventory step-up amortization. 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.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses decreased $1.2 million, or 3.7%, to $31.6 million during the second quarter ended January 1, 2021, as compared to $32.8 million in the second quarter ended December 27, 2019. The decrease was primarily related to improved operating leverage, partially offset by additional headcount from organic growth and direct COVID related expenses. Selling, general and administrative expenses decreased as a percentage of revenue to 15.0% for the second quarter ended January 1, 2021 from 16.9% for the second quarter ended December 27, 2019.

Research and Development

Research and development expenses increased $3.4 million, or 14.1%, to $28.1 million during the second quarter ended January 1, 2021, as compared to $24.7 million during the second quarter ended December 27, 2019. Research and development expenses accounted for 13.4% and 12.7% of our revenues for the second quarters ended January 1, 2021 and December 27, 2019, respectively. The increase during the second quarter ended January 1, 2021 was primarily driven by the continued investment in internal R&D to promote future growth, including new opportunities in avionics mission computers, secure processing, radar modernization and our trusted custom microelectronics business.

Restructuring and Other Charges

Restructuring and other charges were $1.0 million during the second quarter ended January 1, 2021, as compared to $1.1 million during the second quarter ended December 27, 2019. Restructuring and other charges during the second quarter ended January 1, 2021 primarily related to severance costs associated with the elimination of 23 positions, predominantly in the manufacturing, SG&A and R&D functions. Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. These charges related to changing market and business conditions including talent shifts and resource redundancy resulting from the internal reorganization the Company completed in the first quarter.

Acquisition Costs and Other Related Expenses

Acquisition costs and other related expenses were $2.2 million during the second quarter ended January 1, 2021, as compared to $1.1 million during the second quarter ended December 27, 2019. The second quarter ended January 1, 2021 included expenses related to the acquisition of POC which was completed on December 30, 2020. 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, especially within the 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 decreased to $0.1 million during the second quarter ended January 1, 2021, as compared to $0.3 million for the second quarter ended December 27, 2019. This was driven by the lower rate earned on cash on hand during the second quarter ended January 1, 2021, as compared to the prior year.

Interest Expense

We incurred $0.1 million of interest expense during the second quarter ended January 1, 2021, related to the $160.0 million draw on our Revolver to support the POC acquisition, compared to no interest expense during the second quarter ended December 27, 2019.

Other Expense, Net

Other expense, net increased to $1.0 million during the second quarter ended January 1, 2021, as compared to $0.4 million for the second quarter ended December 27, 2019. The increase was primarily driven by a $0.4 million loss on the sale of a cost-method investment, offset by net foreign currency translation gains of $0.4 million during the second quarter ended January 1, 2021. The second quarter ended December 27, 2019 included net foreign currency translation gains of $0.5 million. Both periods include $0.7 million of financing and registration fees.

Income Taxes

We recorded an income tax provision of $4.4 million and $5.1 million on income before income taxes of $17.1 million and $20.8 million for the second quarters ended January 1, 2021 and December 27, 2019, respectively.

During the second quarters ended January 1, 2021 and December 27, 2019, we recognized a discrete tax benefit of $0.1 million and $0.4 million, respectively, related to excess tax benefits on stock-based compensation.

The effective tax rate for the second quarters ended January 1, 2021 and December 27, 2019 differed from the Federal statutory rate primarily due to Federal and State research and development credits, excess tax benefits related to stock-based compensation, non-deductible compensation, 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 January 1, 2021 compared to the six months ended December 27, 2019

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

(In thousands)	January 1, 2021	As a % of Total Net Revenue	December 27, 2019	As a % of Total Net Revenue
Net revenues	$ 416,297	100.0 %	$ 371,217	100.0 %
Cost of revenues	239,511	57.5	204,311	55.0
Gross margin	176,786	42.5	166,906	45.0
Operating expenses:				
Selling, general and administrative	64,500	15.5	62,774	16.9
Research and development	55,545	13.3	46,530	12.5
Amortization of intangible assets	15,374	3.7	15,011	4.0
Restructuring and other charges	2,248	0.6	1,749	0.5
Acquisition costs and other related expenses	2,236	0.5	2,541	0.8
Total operating expenses	139,903	33.6	128,605	34.7
Income from operations	36,883	8.9	38,301	10.3
Interest income	132	—	1,499	0.4
Interest expense	(73)	—	—	—
Other expense, net	(1,827)	(0.5)	(1,785)	(0.5)
Income before income taxes	35,115	8.4	38,015	10.2
Income tax provision	6,631	1.6	3,092	0.8
Net income	$ 28,484	6.8 %	$ 34,923	9.4 %

REVENUES

Total revenues increased $45.1 million, or 12.1%, to $416.3 million during the six months ended January 1, 2021, as compared to $371.2 million during the six months ended December 27, 2019. The increase is primarily due to $37.0 million of additional organic revenues primarily related to integrated subsystems across radar and C4I applications, within land and naval platforms. The increases in organic revenues were primarily driven by a ground radar program, LTAMDS, an airborne program and the Patriot program, which were partially offset by decreases in a classified missile program, AIDEWS and F16/SABR programs. Total revenues also increased due to $8.1 million of additional acquired revenues from the APC and POC acquisitions. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

GROSS MARGIN

Gross margin was 42.5% for the six months ended January 1, 2021, a decrease of 250 basis points from the 45.0% gross margin achieved during the six months ended December 27, 2019. The lower gross margin was primarily driven by $5.0 million of direct COVID expenses, as well as additional CRAD and program mix. These costs were partially offset by operational efficiencies and lower inventory step-up amortization.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased $1.7 million, or 2.7%, to $64.5 million during the six months ended January 1, 2021, as compared to $62.8 million during the six months ended December 27, 2019. The increase was primarily related to $0.6 million of direct COVID related expenses, additional headcount from organic growth and our recent acquisitions. Selling, general and administrative expenses as a percentage of revenues decreased to 15.5% for the six months ended January 1, 2021 from 16.9% for the six months ended December 27, 2019 due to improved operating leverage.

Research and Development

Research and development expenses increased $9.0 million, or 19.3%, to $55.5 million during the six months ended January 1, 2021, as compared to $46.5 million during the six months ended December 27, 2019. Research and development expenses accounted for 13.3% and 12.5% of our revenues for the six months ended January 1, 2021 and December 27, 2019, respectively. The increase was primarily driven by the continued investment in internal R&D to promote future growth, including new opportunities in avionics mission computers, secure processing, radar modernization and our trusted custom microelectronics business.

Restructuring And Other Charges

Restructuring and other charges were $2.2 million during the six months ended January 1, 2021, as compared to $1.7 million during the six months ended December 27, 2019. Restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. These charges related to changing market and business conditions including talent shifts and resource redundancy resulting from the internal reorganization the Company completed in the first quarter.

Acquisition Costs and Other Related Expenses

Acquisition costs and other related expenses were $2.2 million during the six months ended January 1, 2021, as compared to $2.5 million during the six months ended December 27, 2019. The expenses we incurred during the six months ended January 1, 2021 were related to the acquisition of POC which was completed on December 30, 2020. 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 technological capabilities, especially within the 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 decreased to $0.1 million during the six months ended January 1, 2021, as compared to $1.5 million during the six months ended December 27, 2019. This was driven by a lower rate of interest earned on cash on hand during the six months ended January 1, 2021 compared to the prior period.

Interest Expense

We incurred $0.1 million of interest expense during the six months ended January 1, 2021, related to the $160.0 million draw on our Revolver to support the POC acquisition, compared to no interest expense during the six months ended December 27, 2019.

Other Expense, Net

Other expense, net of $1.8 million was consistent during the six months ended January 1, 2021 and December 27, 2019. The six months ended January 1, 2021 included a $0.4 million loss on the sale of a cost-method investment and litigation and settlement expenses, partially offset by net foreign currency translation gains of $0.6 million. The six months ended December 27, 2019 included net foreign currency translation losses of $0.2 million. Both periods included $1.6 million of financing and registration fees.

Income Taxes

We recorded an income tax provision of $6.6 million and $3.1 million on income before income taxes of $35.1 million and $38.0 million for the six months ended January 1, 2021 and December 27, 2019, respectively.

During the six months ended January 1, 2021 and December 27, 2019, we recognized a discrete tax benefit of $2.6 million and $6.5 million, respectively, related to excess tax benefits on stock-based compensation.

The effective tax rate for the six months ended January 1, 2021 and December 27, 2019 differed from the Federal statutory rate primarily due to Federal and State research and development credits, excess tax benefits related to stock-based compensation, non-deductible compensation, 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, inventory purchase commitments and purchase price payout to the employee shareholders of POC. We plan to continue to invest in improvements to our facilities and internal R&D to promote future growth, including new opportunities in avionics mission computers, secure processing, radar modernization and trusted custom microelectronics. Our facilities improvements include buildouts in Andover, Massachusetts, Cypress, California and Hudson, New Hampshire, along with the ongoing expansion of our trusted custom microelectronics business during fiscal 2021.

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

Shelf Registration Statement

On September 14, 2020, we filed a shelf registration statement on Form S-3ASR with the SEC. The shelf registration statement, which was effective upon filing with the SEC, registered each of the following securities: debt securities, preferred stock, common stock, warrants and units. We intend to use the proceeds from financings 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 January 1, 2021, we had $160.0 million of 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)	**January 1, 2021**	**December 27, 2019**
Net cash provided by operating activities	$ 46,868	$ 56,376
Net cash used in investing activities	$ (266,852)	$ (117,421)
Net cash provided by (used in) financing activities	$ 163,122	$ (14,934)
Net decrease in cash, cash equivalents and restricted cash	$ (56,099)	$ (75,895)
Cash, cash equivalents and restricted cash at end of period	$ 170,739	$ 182,037

Our cash, cash equivalents and restricted cash decreased by $56.1 million from July 3, 2020 to January 1, 2021, primarily as the result of $243.6 million used for the acquisition of POC and $24.8 million invested in purchases of property and equipment, partially offset by $160.0 million of borrowings on our Revolver to facilitate the acquisition of POC and $46.9 million provided by operating activities.

Operating Activities

During the six months ended January 1, 2021, we generated $46.9 million in cash from operating activities, a decrease of $9.5 million, as compared to the six months ended December 27, 2019. The decrease was primarily the result of higher inventory purchases intended to mitigate potential disruptions to the supply chain or unforeseen changes in customer behavior resulting from the COVID pandemic and to support growth of the business and lower comparable net income. This decrease was partially offset by higher deferred revenues and customer advances, and lower prepaid income taxes.

Investing Activities

During the six months ended January 1, 2021, we invested $266.9 million, an increase of $149.4 million, as compared to the six months ended December 27, 2019. The increase was driven by $243.6 million in cash used for the acquisition of POC and an additional $3.8 million invested in purchases of property and equipment, primarily related to our facilities, during the six months ended January 1, 2021.

Financing Activities

During the six months ended January 1, 2021, we had $163.1 million in cash provided by financing activities as compared to $14.9 million used in financing activities during the six months ended December 27, 2019. The $178.0 million increase was primarily due to $160.0 million of borrowings on our Revolver to facilitate the acquisition of POC and $14.9 million of fewer payments related to the purchase and retirement of common stock used to settle individual employees' tax liabilities associated with vesting of restricted stock awards, as compared to the six months ended December 27, 2019. The decrease in the payments related to the purchase and retirement of common stock used to settle individual employees' tax liabilities associated with vesting of restricted stock awards is due to a change in our incentive stock plan tax withholding methods.

COMMITMENTS, CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The following is a schedule of our commitments and contractual obligations outstanding at January 1, 2021:

(In thousands)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Purchase obligations	$ 132,021	$ 132,021	$ —	$ —	$ —
Operating leases	114,008	12,291	25,272	22,858	53,587
Deferred consideration	61,626	61,626	—	—	—
	$ 307,655	$ 205,938	$ 25,272	$ 22,858	$ 53,587

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 $132.0 million at January 1, 2021.

As of January 1, 2021, we held $61.6 million of Restricted cash and recorded a Deferred consideration liability for a purchase price payout to the employee shareholders of POC. This payout was made during the third quarter of fiscal 2021.

We have a liability at January 1, 2021 of $4.1 million for uncertain tax positions that have been taken or are expected to be taken in various income tax returns. We do not know the ultimate resolution on these uncertain tax positions and as such, do not know the ultimate timing of payments or amount, if any, related to this liability. Accordingly, these amounts are not included in the above table.

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

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

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, COVID related expenses, and stock-based and other non-cash compensation expense. We use adjusted EBITDA as an important indicator of the operating performance of our business. We use adjusted EBITDA in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our board of directors, determining the portion of bonus compensation for executive officers and other key employees based on operating performance, evaluating short-term and long-term operating trends in our operations and allocating resources to various initiatives and operational requirements. We believe that adjusted EBITDA permits a comparative assessment of our operating performance, relative to our performance based on our GAAP results, while isolating the effects of charges that may vary from period to period without any correlation to underlying operating performance. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making. We believe that trends in our adjusted EBITDA are valuable indicators of our operating performance.

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

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

	Second Quarters Ended		Six Months Ended	
(In thousands)	**January 1, 2021**	**December 27, 2019**	**January 1, 2021**	**December 27, 2019**
Net income	$ 12,686	$ 15,676	$ 28,484	$ 34,923
Other non-operating adjustments, net	(3)	(549)	(185)	(248)
Interest expense (income), net	13	(312)	(59)	(1,499)
Income tax provision	4,433	5,110	6,631	3,092
Depreciation	5,641	4,555	10,907	8,917
Amortization of intangible assets	7,643	7,992	15,374	15,011
Restructuring and other charges	951	1,101	2,248	1,749
Impairment of long-lived assets	—	—	—	—
Acquisition and financing costs	2,969	1,882	3,810	4,118
Fair value adjustments from purchase accounting	—	600	—	600
Litigation and settlement expense, net	251	142	438	455
COVID related expenses	3,309	—	5,628	—
Stock-based and other non-cash compensation expense	7,439	6,639	14,806	12,415
Adjusted EBITDA	$ 45,332	$ 42,836	$ 88,082	$ 79,533

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

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

The following tables reconcile net income 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)	**January 1, 2021**		**December 27, 2019**	
Net income and diluted earnings per share	$ 12,686	$ 0.23	$ 15,676	$ 0.29
Other non-operating adjustments, net[1]	(3)		(549)	
Amortization of intangible assets	7,643		7,992	
Restructuring and other charges	951		1,101	
Impairment of long-lived assets	—		—	
Acquisition and financing costs	2,969		1,882	
Fair value adjustments from purchase accounting	—		600	
Litigation and settlement expense, net	251		142	
COVID related expenses	3,309		—	
Stock-based and other non-cash compensation expense	7,439		6,639	
Impact to income taxes[2]	(5,275)		(4,368)	
Adjusted income and adjusted earnings per share	$ 29,970	$ 0.54	$ 29,115	$ 0.53
Diluted weighted-average shares outstanding		55,434		55,001

(1) Effective as of the third quarter of fiscal 2020, the Company has revised its definition of adjusted income and adjusted earnings per share to incorporate other non-operating adjustments, which includes gains or losses on foreign currency remeasurement, investments and fixed assets sales or disposals among other adjustments. Adjusted EPS for prior periods has been recast for comparative purposes.
(2) 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							
	January 1, 2021				December 27, 2019			
Net income and earnings per share	$	28,484	$	0.51	$	34,923	$	0.63
Other non-operating adjustments, net[1]		(185)				(248)		
Amortization of intangible assets		15,374				15,011		
Restructuring and other charges		2,248				1,749		
Impairment of long-lived assets		—				—		
Acquisition and financing costs		3,810				4,118		
Fair value adjustments from purchase accounting		—				600		
Litigation and settlement expense, net		438				455		
COVID related expenses		5,628				—		
Stock-based and other non-cash compensation expense		14,806				12,415		
Impact to income taxes[2]		(12,299)				(15,293)		
Adjusted income and adjusted earnings per share	$	58,304	$	1.05	$	53,730	$	0.98
Diluted weighted-average shares outstanding				55,385				55,037

(1) Effective as of the third quarter of fiscal 2020, the Company has revised its definition of adjusted income and adjusted earnings per share to incorporate other non-operating adjustments, which includes gains or losses on foreign currency remeasurement, investments and fixed assets sales or disposals among other adjustments. Adjusted EPS for prior periods has been recast for comparative purposes.
(2) 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			
	January 1, 2021		December 27, 2019		January 1, 2021		December 27, 2019	
Cash provided by operating activities	$	23,939	$	32,066	$	46,868	$	56,376
Purchase of property and equipment		(13,775)		(11,324)		(24,753)		(20,919)
Free cash flow	$	10,164	$	20,742	$	22,115	$	35,457

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 tables reconcile the most directly comparable GAAP financial measure to the non-GAAP financial measure for the second quarters and six months ended January 1, 2021 and December 27, 2019, respectively:

(In thousands)	January 1, 2021	As a % of Total Net Revenue	December 27, 2019	As a % of Total Net Revenue	$ Change	% Change
Organic revenue	$ 210,459	100 %	$ 193,913	100 %	$ 16,546	9 %
Acquired revenue	217	— %	—	— %	217	100 %
Total revenues	$ 210,676	100 %	$ 193,913	100 %	$ 16,763	9 %

(In thousands)	January 1, 2021	As a % of Total Net Revenue	December 27, 2019	As a % of Total Net Revenue	$ Change	% Change
Organic revenue	$ 407,244	98 %	$ 370,274	100 %	$ 36,970	10 %
Acquired revenue	9,053	2 %	943	— %	8,110	860 %
Total revenues	$ 416,297	100 %	$ 371,217	100 %	$ 45,080	12 %

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our exposure to market risk from July 3, 2020 to January 1, 2021.

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 January 1, 2021. 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 January 1, 2021 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 POC 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 July 3, 2020. There have been no changes from the factors disclosed in our 2020 Annual Report on Form 10-K filed on August 18, 2020, although we may disclose changes to such factors from time to time in our future filings with the Securities and Exchange Commission.

ITEM 6. EXHIBITS

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

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

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

MERCURY SYSTEMS, INC.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Andover, Massachusetts, on February 9, 2021.

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 9, 2021

/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 9, 2021

/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 January 1, 2021 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 9, 2021

/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