

Delivering high-performance  
processing that makes a  
meaningful impact today

## FY23 FINANCIAL RESULTS

REVENUE	ORGANIC REVENUE	BOOKINGS	GAAP NET LOSS	ADJUSTED EBITDA
<b>\$974M</b>	<b>\$948M</b>	<b>\$1,076M</b>	<b>\$(28M)</b>	<b>\$132M</b>
↓ 1%	↓ 3%	↑ 1%	N.A.	↓ 34%

## MERCURY SYSTEMS BY THE NUMBERS

**~2,600**

Number of team members globally, ~30% hold DoD security clearances

**24**

Global state-of-the-art facilities

**\$974M**

FY23 revenue, 20% CAGR FY16-FY23  
6% avg. organic growth FY17-FY23

**25+**

Prime customers: including virtually all leaders in the A&D industry

**300+**

Installed base: number of A&D programs with Mercury embedded

**\$132M**

FY23 Adj. EBITDA, 14% margin  
13% CAGR FY16-FY23

**40+**

Years of tech leadership in A&D industry

**\$109M**

FY23 research and development spend

**75%**

Of primes consider Mercury their top processing technology provider

## Cautionary Notice About Forward-Looking Statements

This annual report contains certain forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including those relating to the Company's focus on enhanced execution of the Company's strategic plan under a refreshed Board and leadership team. You can identify these statements by the words "may," "will," "could," "should," "would," "plans," "expects," "anticipates," "continue," "estimate," "project," "intend," "likely," "forecast," "probable," "potential," and similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, continued funding of defense programs, the timing and amounts of such funding, general economic and business conditions, including unforeseen weakness in the Company's markets, effects of any U.S. federal government shutdown or extended continuing resolution, effects of geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in or cost increases related to completing development, engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in, or in the U.S. government's interpretation of, federal export control or procurement rules and regulations, changes in, or in the interpretation or enforcement of, environmental rules and regulations, market acceptance of the Company's products, shortages in or delays in receiving components, supply chain delays or volatility for critical components such as semiconductors, production delays or unanticipated expenses including due to quality issues or manufacturing execution issues, failure to achieve or maintain manufacturing quality certifications, such as AS9100, the impact of the COVID pandemic and supply chain disruption, inflation and labor shortages, among other things, on program execution and the resulting effect on customer satisfaction, inability to fully realize the expected benefits from acquisitions, restructurings, and execution excellence initiatives or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, effects of shareholder activism, increases in interest rates, changes to industrial security and cyber-security regulations and requirements and impacts from any cyber or insider threat events, changes in tax rates or tax regulations, such as the deductibility of internal research and development, changes to interest rate swaps or other cash flow hedging arrangements, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, which difficulties may be impacted by the termination of the Company's announced strategic review initiative, unanticipated challenges with the transition of the Company's Chief Executive Officer and Chief Financial Officer roles, including any dispute arising with the former CEO over his resignation, unanticipated costs under fixed-price service and system integration engagements, and various other factors beyond our control. These risks and uncertainties also include such additional risk factors as are discussed in the Company's filings with the U.S. Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2023 and subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. The Company cautions readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

## INNOVATION THAT MATTERS

Mercury's position in the market is unique. We are leading the development and adaptation of innovative technologies that modernize A&D solutions.



Dear Mercury Shareholders,

It is a privilege to be leading Mercury Systems, a technology company at the intersection of high tech and aerospace and defense, delivering high-performance processing that makes a meaningful impact today. It is an exciting time to be taking the helm and as I meet with customers and visit our different locations, I continue to be impressed by the candid and meaningful conversations I have. Our customers rely on us to help them solve their most pressing challenges and place their confidence in us. The people of Mercury care about our customers and the work we do.

Mercury at its core is strong. We have a fundamental business model worthy of admiration. What we do, the innovation we deliver, and the capabilities that we put into the hands of men and women in uniform serving our country and our allies directly affects safety and security across the globe. I am confident that our efforts, resilience, and dedication, combined with our strategy, priorities, and focus, will guide the company through our next chapter.

## INNOVATION THAT MATTERS

Mercury's position in the market is unique. We are leading the development and adaptation of innovative technologies that modernize A&D solutions, making us a national asset in the defense industrial base. At a macro level, we are positioned in an attractive growth market – defense technology – and more importantly, we are situated in the right parts of that market that are experiencing spending growth. At a micro level, we are designed-in with sole-source positions on critical defense programs poised for significant electronic modernization.

The majority of our business is performing well, delivering predictable and profitable growth. This solid performance has been partially masked by approximately 20 programs that are experiencing unique and outsized costs, primarily temporary cost growth related to initial development challenges. Mercury has great fundamentals and we need a renewed focus to restore and drive strong returns.

## ENHANCED FOCUS ON EXECUTION

While we have taken and will continue to take actions to improve predictability, organic growth, margin, and cash flow, 2024 will be a transition year. We will continue to enhance our management system and processes in order to deliver on our financial commitments and drive long-term shareholder value.

We have four priority areas central to unlocking the intrinsic value of the business: Delivering predictable results; building a thriving organic growth engine; expanding margins; and driving improved free cash flow generation.

### Delivering predictable results

Assessing our program portfolio, our core business consisting of franchise production programs is healthy and delivers solid gross margins, which gives me confidence and conviction in our long-term business model.

Currently, there are two factors that have pressured and added variability to our recent results. First, we have been successful winning a number of development programs that has led to a shift in our program mix from 20% development programs in 2021 to 40% in 2023. We know this mix shift is temporary in nature and a positive leading indicator of future growth, as our development programs are a precursor to higher-margin, long-term production contracts. However, given that our development programs typically run at approximately 1,000 basis points lower gross margin than our production programs, we have experienced near-term margin pressure tied to the mix shift.

Second, because our program management systems and processes have not matured at the same pace as the growth of our business over the last several years, a small number of programs have become challenged leading to unanticipated and temporary impacts on our overall performance. In 2023, execution challenges on approximately 20 programs, a majority of which are development in nature, resulted in a \$56M reduction in profitability.

## LETTER TO THE SHAREHOLDERS (CONT.)

We are squarely focused on mitigating the effects from the challenged programs, completing them, and transitioning them into production. We have strengthened our program reviews on development programs with increased frequency and internal rigor, and tightened program management accountability to drive better performance. These execution challenges are resolvable, temporary in nature, and the full force of the organization is focused on overcoming them.

### **Building a thriving organic growth engine focused on driving a higher book-to-bill**

Our second focus area requires a tuned growth engine that is bidding and winning new contracts at an appropriate level given our scale after years of primarily inorganic growth. Our book-to-bill has averaged slightly above 1.0 over the past eight quarters, which is not adequate to meet our growth aspirations. Going forward, we are focused on driving a higher book-to-bill, which will help meet our long-term growth objectives and above-market growth rates reflecting our attractive market positioning.

Scaling up our growth engine will take some time, but the good news is that we aren't opportunity constrained. There is a consistent progression associated with targeting pipeline and levels of bid activity as leading indicators to revenue growth. We have already begun that work led by our Growth organization, and while it will take time to translate into revenue, I am confident that a healthy growth engine combined with Mercury's strong positioning will lead to industry-leading organic growth.

### **Expanding margins through targeted improvements to both our operating expense and gross margin**

We have taken initial actions to simplify our organizational structure, facilitate clearer accountability, and align to our priorities, including:

- Embedding the processes and execution of our IMPACT transformation program into the business, including in every function and at every level of the organization;
- Streamlining our organizational structure and removing areas of redundancy between corporate and divisional organizations; and
- Reducing SG&A headcount and rebalancing discretionary and third-party spend.

This first set of actions will generate \$24M in annual run rate cost savings, including a \$20-\$22M net benefit to 2024. In the near term, we are evaluating additional efforts to drive further efficiencies in SG&A, R&D investment, and manufacturing footprint, among others.

### **Driving improved free cash flow conversion and near-term cash release**

Over the past two years, Mercury has delivered \$333M of adjusted EBITDA but generated negative \$107M in free cash flow. Working capital has accumulated on our balance sheet, primarily in unbilled receivables and inventory, as a direct result of the temporary execution challenges, primarily on development programs.

Based on our work to date, we have clear visibility into the drivers of our working capital increase and are focused on resolving execution challenges, shipping and billing against legacy program unbilled balances, and improving asset efficiency through cash-neutral or positive terms and tighter alignment of manufacturing cycles with customer deliveries.

## LOOKING FORWARD

I am encouraged by three factors: Much of our business is performing very well; the execution challenges that are masking this performance are occurring on a small subset of challenged programs and are all solvable; and the current larger-than-normal mix of development programs reflects the potential for increased highly predictable and profitable business as the programs transition into production.

I have confidence in Mercury's business model and see a clear path to achieving our objectives. It is remarkable what our nearly 2,600 employees around the world have achieved, collectively and individually, and I have seen in my short time here that, together, our ability to innovate is unmatched.

Mercury is in an attractive strategic position with incredible potential. We have identified and are systematically and strategically removing obstacles that are clouding a healthy core. The performance, capabilities, and mindset of our teams will enable us to realize our potential. I am honored and excited to help lead our organization through this time of change and look forward to sharing our progress with you.

Sincerely,



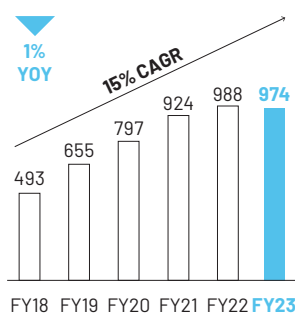
**Bill Ballhaus**  
**President and Chief Executive Officer**

September 21, 2023

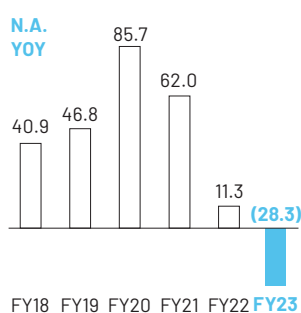


## FY23 FINANCIAL HIGHLIGHTS

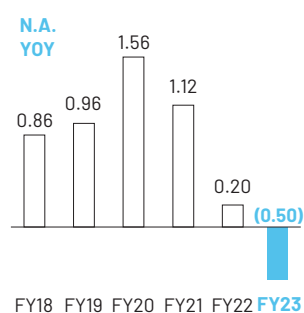
### REVENUE (\$M)



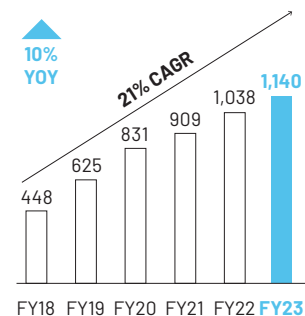
### GAAP Net Income (Loss) (\$M)



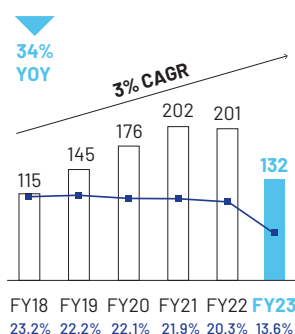
### GAAP Earnings (Loss) Per Share (\$)



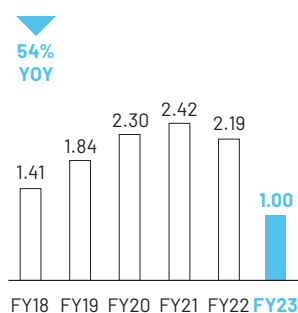
### BACKLOG (\$M)



### ADJ. EBITDA (\$M, %)<sup>(1)</sup>



### ADJ. EPS (\$)<sup>(1)</sup>



CAGR figures for period of FY18–FY23. YoY figures for period of FY22 vs FY23. Numbers are rounded. Per-share data is presented on a fully diluted basis.

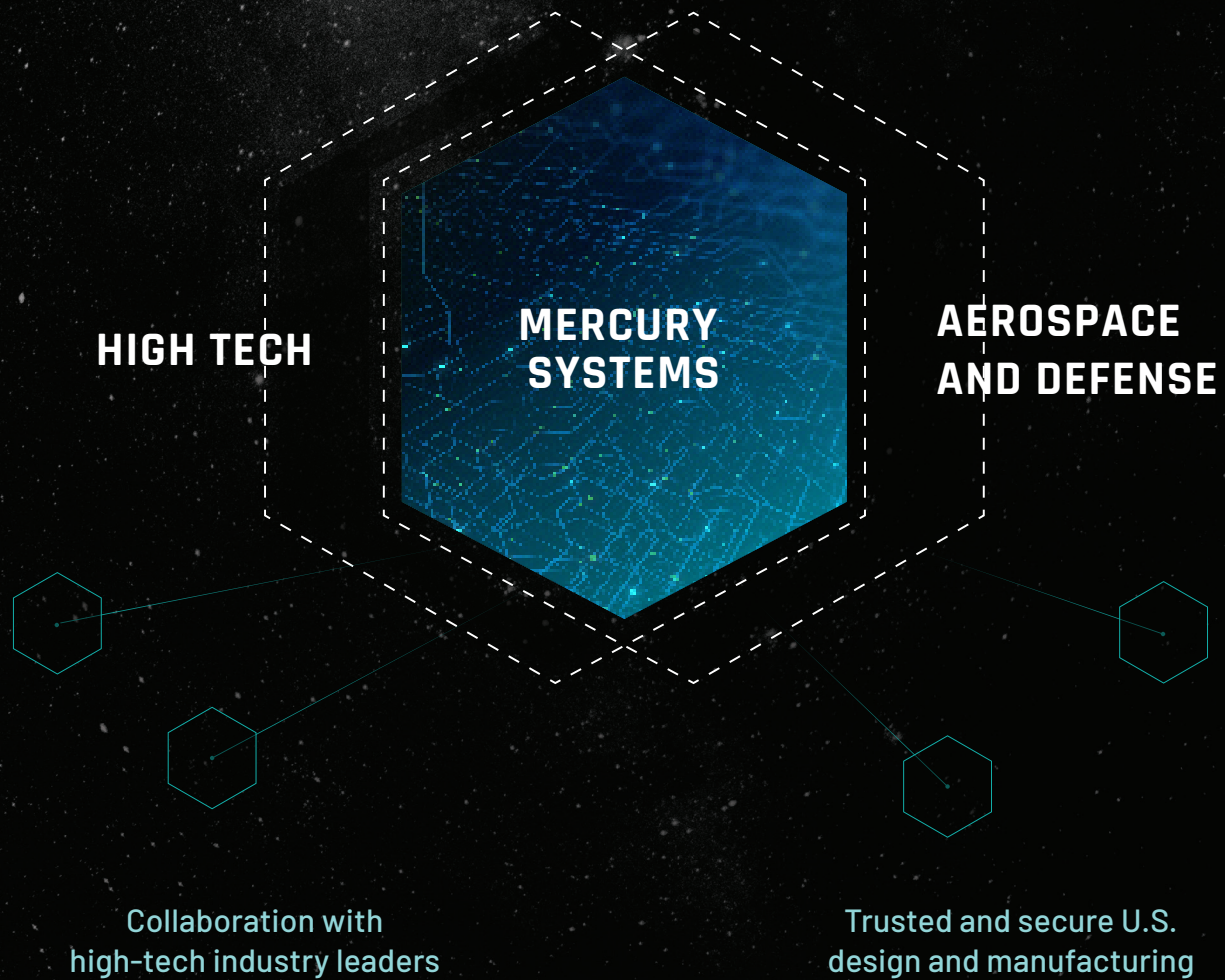
## SELECTED FINANCIAL DATA

The following table summarizes certain historical consolidated financial data, which should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report (in thousands, except per-share data):

	FISCAL YEARS				
	2023	2022	2021	2020	2019
<b>Statement of Operations Data</b>					
Net revenues	\$973,882	\$988,197	\$923,996	\$796,610	\$654,744
(Loss) income from operations	\$(21,685)	\$31,610	\$81,001	\$91,062	\$76,584
Net (loss) income	\$(28,335)	\$11,275	\$62,044	\$85,712	\$46,775
<b>Net (Loss) Earnings Per Share</b>					
Basic	\$(0.50)	\$0.20	\$1.13	\$1.57	\$0.98
Diluted	\$(0.50)	\$0.20	\$1.12	\$1.56	\$0.96
Adjusted EBITDA <sup>(1)</sup>	\$132,253	\$200,507	\$201,896	\$176,242	\$145,326
Adjusted EPS <sup>(1)</sup>	\$1.00	\$2.19	\$2.42	\$2.30	\$1.84
	AS OF FISCAL YEARS				
	2023	2022	2021	2020	2019
<b>Balance Sheet Data</b>					
Working capital	\$703,754	\$621,325	\$492,277	\$508,854	\$484,140
Total assets	\$2,391,367	\$2,304,415	\$1,955,137	\$1,610,720	\$1,416,977
Long-term obligations	\$591,418	\$573,303	\$320,168	\$100,021	\$34,206
Total shareholders' equity	\$1,566,685	\$1,537,185	\$1,484,146	\$1,384,784	\$1,284,739

(1) Adjusted EBITDA and adjusted EPS are key measures that are not calculated according to U.S. generally accepted accounting principles ("GAAP"). Refer to "Non-GAAP Financial Measures" in Management's Discussion and Analysis of Financial Condition and Results of Operations for our definition of these measures, including reconciliations to our most directly comparable GAAP financial measures. Reconciliations to our most directly comparable GAAP financial measures are included in our Annual Report on Form 10-K for fiscal years 2021, 2022, and 2023.

Disruptive business model positioned  
at the intersection of high tech and defense



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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED June 30, 2023**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .  
COMMISSION FILE NUMBER 0-23599**

**MERCURY SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Massachusetts**

(State or other jurisdiction of incorporation or organization)

**50 Minuteman Road**

**Andover MA**

(Address of principal executive offices)

**04-2741391**

(I.R.S. Employer Identification No.)

**01810**

(Zip Code)

**978-256-1300**

(Registrant's telephone number, including area code)

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE  
SECURITIES EXCHANGE ACT OF 1934:**

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, Par Value \$0.01 Per Share	MRCY	Nasdaq Global Select Market

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE  
SECURITIES EXCHANGE ACT OF 1934: NONE**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the 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  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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial report under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.762(b)) by the registered public accounting firm that prepared or issued its audit report. Yes  No

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

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

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately \$2.6 billion based upon the closing price of the Common Stock as reported on the Nasdaq Global Select Market on December 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter.

Shares of Common Stock outstanding as of July 31, 2023: 58,189,929 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for its 2023 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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# MERCURY SYSTEMS, INC.

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## PART I

**This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those set forth in the forward-looking statements. The reader may find discussions containing such forward-looking statements in the material set forth under “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” as well as elsewhere in this Annual Report on Form 10-K. Certain factors that might cause such a difference are discussed in this annual report on Form 10-K, including in the section entitled “Risk Factors.”**

When used in this report, the terms “Mercury,” “we,” “our,” “us,” and “the Company” refer to Mercury Systems, Inc. and its consolidated subsidiaries, except where the context otherwise requires or as otherwise indicated.

All references to fiscal 2023 are to the 52-week period from July 2, 2022 to June 30, 2023. All references to fiscal 2022 are to the 52-week period from July 3, 2021 to July 1, 2022. All references to fiscal 2021 are to the 52-week period from July 4, 2020 to July 2, 2021. There have been no reclassifications of prior comparable periods due to this change.

### ITEM 1. BUSINESS

#### Our Company

Mercury Systems, Inc. is a technology company that delivers processing power for the most demanding aerospace and defense missions. Headquartered in Andover, Massachusetts, our end-to-end processing platform enables a broad range of aerospace and defense programs, optimized for mission success in some of the most challenging and demanding environments. Processing technologies that comprise our platform include signal solutions, display, software applications, networking, storage and secure processing. Our innovative solutions are mission-ready, software-defined and open and modular, meeting our customers’ cost and schedule needs today by allowing them to use or modify our products to suit their mission. Customers access our solutions via the Mercury Processing Platform, which encompasses the broad scope of our investments in technologies, companies, products, services and the expertise of our people. Ultimately, we connect our customers to what matters most to them. We connect commercial technology to defense, people to data and partners to opportunities. At the most human level, we connect what we do to our customers’ missions; supporting the people for whom safety, security and protecting freedom are of paramount importance.

As a leading manufacturer of essential components, products, modules and subsystems, we sell to defense prime contractors, the U.S. government and original equipment manufacturers (“OEM”) commercial aerospace companies. Mercury has built a trusted, robust portfolio of proven product solutions, leveraging the most advanced commercial silicon technologies and purpose-built to exceed the performance needs of our defense and commercial customers. Customers add their own applications and algorithms to our specialized, secure and innovative products and pre-integrated solutions. This allows them to complete their full system by integrating with their platform, the sensor technology and, increasingly, the processing from 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 on time constraints that matter. Our long-standing deep relationships with leading high-tech and other commercial companies, coupled with our high level of research and development (“R&D”) investments on a percentage basis of sales and industry-leading trusted and secure design and manufacturing capabilities, are the foundational tenets of this highly successful model. We are leading the development and adaptation of commercial technology for aerospace and defense solutions. From chip-scale to system scale and from data, including radio frequency (“RF”) to digital to decision, we make mission-critical technologies safe, secure, affordable and relevant for our customers.

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

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

Our consolidated revenues, acquired revenues, net loss, diluted loss per share, adjusted earnings per share (“adjusted EPS”) and adjusted EBITDA for fiscal 2023 were \$973.9 million, \$25.1 million, \$(28.3) million, \$(0.50), \$1.00 and \$132.3 million, respectively. Our consolidated revenues, acquired revenues, net income, earnings per share (“EPS”), adjusted EPS and adjusted EBITDA for fiscal 2022 were \$988.2 million, \$6.0 million, \$11.3 million, \$0.20, \$2.19 and \$200.5 million,

respectively. See the Non-GAAP Financial Measures section of this annual report for a reconciliation of our acquired revenues, adjusted EPS and adjusted EBITDA to the most directly comparable GAAP measures.

## IMPACT

On August 3, 2021, Mercury announced a companywide effort, called IMPACT, to lay the foundation for the next phase of the Company's value creation at scale. Since fiscal year 2014, Mercury has completed 15 acquisitions, deploying \$1.4 billion of capital and, as a result, dramatically scaled and transformed the business. Over this time, the Company has extracted substantial revenue and cost synergies from each of these individual acquisitions. The goal of IMPACT is to achieve Mercury's full growth, margin expansion, adjusted EBITDA and free cash flow potential over the next five years.

IMPACT was always intended to be a multi-year journey where Mercury builds on its operational competence until the behaviors and practices that came with IMPACT simply become the way Mercury operates. On July 18, 2023, Mercury executed the planned evolution of our IMPACT value creation initiative, embedding the processes and execution of IMPACT into our Execution Excellence organization. The IMPACT office has concluded its responsibilities, having successfully incorporated the principles behind IMPACT into how Mercury thinks about continuous improvement at all levels of the organization.

## Our Business Strategy

Mercury's business strategy is based on a differentiated market position: we make trusted, secure, mission critical technologies profoundly more accessible to the aerospace and defense industry. The Mercury Processing Platform serves customers with cutting-edge commercial technology innovations, purpose built and mission-ready for aerospace and defense applications, through above average industry investment on a percentage basis in R&D. Our strategy is built to meet the aerospace and defense market's need for speed and affordability.

Our ability to continue to improve our performance and deliver results demands we all align around the few actions that unlock the intrinsic value in the business. As such, we will focus on four areas that unlock our capacity to create value and reinvest for growth:

1. *Delivering Predictable Results* – Continuous improvement in the performance of our programs, transition our challenged development programs into production and mature our management systems and processes.
2. *Building a Thriving Organic Growth Engine* – Create a growth engine that is consistently bidding and winning new contracts to drive industry leading organic growth.
3. *Expanding Margins* – Drive comprehensive cost management efforts corporate-wide including improvement in gross margins across all programs, facilitating clearer accountability and streamlining our structure and processes.
4. *Driving Cash Release* – Enhance our cash flow conversion, including improvements in delivery and collection.

Our strategies are built around our key strengths as a leading commercial technology company serving the aerospace and defense industry. Our strategies include innovation and investment in scaling existing capabilities, as well as augmenting our capabilities through an acquisition strategy designed to focus on adjacent technologies. We believe our investment in R&D is more than double that of our competitors on a percentage of sales. Our consistent strategies allow us to assist our customers, mostly defense prime contractors, to reduce program cost, minimize technical risk, stay on schedule and on budget and ensure trust and security in the supply chain. As a result, we have successfully penetrated strategic programs including Aegis, Patriot, Lower Tier Air & Missile Defense Sensor ("LTAMDS"), Surface Electronic Warfare Improvement Program ("SEWIP"), Terminal High Altitude Area Defense ("THAAD"), Predator, F-35, Reaper, F-18, F-16 SABR, E2-D Hawkeye, Paveway, Filthy Buzzard, PGK, P-8, Advanced Integrated Defensive Electronic Warfare Suite ("AIDEWS"), Common Display System ("CDS"), Aviation Mission Common Server ("AMCS") and WIN-T.

We are committed to continued investment and innovation in advanced new products and solutions development to maintain our competitive advantage, including in the fields of RF, analog-to-digital and digital-to-analog conversion, advanced multi- and many-core sensor processing systems including graphics processing units ("GPUs"), safety-critical design and engineering, processing for AI, embedded security, digital storage, digital radio frequency memory ("DRFM") solutions, software-defined communications capabilities and advanced security technologies and capabilities. Concurrently, we leverage our engineering and development capabilities, including systems integration, to accelerate our strategy to become a commercial outsourcing partner to the large defense prime contractors as they seek the more rapid design, development and delivery of affordable, commercially-developed, open architecture solutions within the markets we serve. We invest in scalable manufacturing operations in the U.S. to enable rapid, cost-effective deployment of our microelectronics and secure processing solutions to our customers.

Our commercial business model positions us to be compensated for non-recurring engineering which supplements our own internal R&D investment. We typically team concurrently with multiple defense prime contractors as they pursue new

business with solutions they develop and market to the government, and engage with our customers early in the design cycle. Our engagement model can lead to long-term production revenue that continues after the initial services are delivered.

We have added capabilities, through both M&A and investment in organic growth, both horizontally – in adjacent markets – and vertically – adding more content. For example:

- First, transition to pre-integrated subsystems: Mercury has expanded capabilities, particularly in integrated subsystems related to defense threats and increased system complexity, which in turn has driven greater outsourcing to us from our prime defense contractor and OEM customers.
- Second, expansion into new submarkets: Within the major markets Mercury serves we have moved, for example, into electronic warfare, weapons systems, acoustics submarkets, C4I and mission computing.
- Third, vertical expansion: As we continue to add content, we seek to apply technology to all computers on aerospace and defense platforms that require trusted, safe and secure processing.
- Fourth, microelectronics: Our investment domestically in next-generation chiplet technology, from chip-scale to system scale.

Since July 2015, we have added substantial capabilities to our technology portfolio including: embedded security, with the acquisitions of Lewis Innovative Technologies Inc. (“LIT”), custom microelectronics, RF and microwave solutions and embedded security, with the carve-out acquisition from Microsemi Corporation (the “Carve-Out Business”), The Athena Group, Inc. (“Athena”), Delta Microwave, LLC (“Delta”), Syntonic Microwave LLC (“Syntonic”), Pentek Technologies, LLC and Pentek Systems, Inc. (collectively, “Pentek”) and Atlanta Micro, Inc. (“Atlanta Micro”); mission computing, safety-critical avionics and platform management and large area display technology with the CES Creative Electronic Systems, S.A. (“CES”), Richland Technologies, L.L.C. (“RTL”), GECO Avionics, LLC (“GECO”), American Panel Corporation (“APC”), Physical Optics Corporation (“POC”) and Avalex Technologies, LLC. (“Avalex”) acquisitions; and rugged servers, computers and storage systems with the acquisitions of Themis Computer (“Themis”) and Germane Systems, LC (“Germane”).

We believe we have built the most trusted, proven, contemporary portfolio of solutions and sub-systems that are purpose-built to meet or exceed our customers’ most pressing high-tech needs. We are investing in mission-critical processing technologies embedded into the Mercury Processing Platform:

- *Security.* Industry-leading embedded security capabilities, secure supply chain, U.S. manufacturing facilities and data management practices for highly sensitive missions.
- *Signal.* Broadband microwave technology, high-speed digitization, low-latency processing, purpose-built for mission-critical applications.
- *Display.* Smart, rugged, interactive, high-definition display technology optimized for the low-light, multi-angle viewing requirements of cockpits and armored vehicles.
- *Software.* Advanced open middleware and software facilitates rapid application porting on top of open mission systems architecture.
- *Networking.* Open, interoperable and secure networking based on widely adopted commercial protocols and standards to enable connectivity from data to decision.
- *Storage.* Fast, radiation-tolerant and encrypted data-at-rest solutions to securely store the vast amounts of data produced by sophisticated edge sensors.
- *Compute.* High-performance, highly reliable, safe, secure and resilient computing leveraging the latest in commercial innovation from edge to cloud, ground to space.

## **Our Solutions and Products**

We deliver technology at the intersection of the high-tech and defense industries. The Mercury difference is driven by key “differentiators” we promise to deliver to all of our customers: Mission-Ready; Trusted and Secure; Software-Defined; and Open and Modular.

- *Mission-Ready:* Fit for purpose to meet the demanding needs of our customers' missions. Advanced thermal management and rugged packaging technology ensures optimal performance and reliable operation in the most challenging environments on earth and beyond. We deliver extended reliability and dependability through thermal management, component selection, environmental protection and testing.

- *Trusted and Secure:* A trusted supply chain, with products designed and manufactured onshore. Advanced cryptography, secure boot and physical protection technologies like our BuiltSECURE technology can mitigate reverse engineering, deliver cyber resiliency and safeguard confidential data and IP against adversarial threats, even when a system has been compromised. We also design safety-certifiable BuiltSAFE processing systems up to the highest design assurance levels.

- *Software-Defined*: Software enabled hardware for future proofing, rapid scaling, ease of maintenance and affordability. Flexible hardware architectures that are reconfigurable and upgradeable with software to extend the life of our systems and the platforms they are deployed on. Our model-based systems engineering (“MBSE”) design approach aims to significantly decrease the time and cost involved in developing and deploying military and aerospace platforms.

- *Open and Modular*: “Plug and play”, upgradeable and scalable. A modular, open, systems architecture (“MOSA”) approach to system design maximizes technology reuse to dramatically reduce development time and cost. This open systems approach mitigates obsolescence risk while emphasizing commonality, interoperability and sustainability across platforms and domains.

The Mercury Processing Platform is 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, we seek to leverage technology investments across multiple product lines and product solutions. Examples of hardware products include small, custom microelectronics, embedded sensor processing subsystems, RF and microwave components, modules and subsystems, rugged servers and avionics mission computers.

Our products are typically compute-intensive and require extremely high bandwidth and high throughput. These systems often must also meet significant size, weight and power (“SWaP”) constraints for use in aircraft, unmanned aerial vehicles (“UAVs”), ships and other platforms and be ruggedized for use in harsh environments. They are primarily used in both commercial aerospace applications, such as communications and ground radar air traffic control, as well as advanced defense and intelligence applications, including space-time adaptive processing, synthetic aperture radar, airborne early warning, command, control, communication and information systems, mission planning, image intelligence and signal intelligence systems. Our 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.

We group our products into the following categories:

- *Components*. Components represent the basic building blocks of an electronic system. They generally perform a single function such as switching, storing or converting electronic signals. Some examples include power amplifiers and limiters, switches, oscillators, filters, equalizers, digital and analog converters, chips, MMICs (monolithic microwave integrated circuits) and memory and storage devices.

- *Modules and Subassemblies*. Modules and sub-assemblies combine multiple components to serve a range of complex functions, including processing, networking and graphics display. Typically delivered as computer boards or other packaging, modules and sub-assemblies are usually designed using open standards to provide interoperability when integrated in a subsystem. Examples of modules and sub-assemblies include embedded processing boards, switched fabrics and boards for high-speed input/output, digital receivers, graphics and video, along with multi-chip modules, integrated radio frequency and microwave multi-function assemblies and radio frequency tuners and transceivers.

- *Integrated Subsystems*. Integrated subsystems bring components, modules and/or sub-assemblies into one system, enabled with software. Subsystems are typically, but not always, integrated within an open standards-based chassis and often feature interconnect technologies to enable communication between disparate systems. Spares and replacement modules and sub-assemblies are provided for use with subsystems sold by us. Our subsystems are deployed in sensor processing, aviation and mission computing and C4I applications.

By providing pre-integrated subsystems to our customers, we enable them to rapidly and cost-effectively port and adapt their applications to changing threats. This approach also saves our customers valuable time and expense, as their initial costs to integrate modules and components typically far exceed the costs of the individual product procurement. This benefit continues over time because we are continually investing R&D into our products. This allows us to provide our customers the latest technologies in our pre-integrated subsystems faster than they can typically do it themselves. We believe this is a better business and technology model to operate within, as it continues to provide value and benefits to us and our customers over time.

To address the current challenges facing the warfighter, our government and defense prime contractors, we have developed a new product architecture that supports a more dynamic, iterative, spiral development process by leveraging open architecture standards and leading-edge commercial technologies and products. Our open architecture is carried throughout our entire product line from the very small form-factor subsystems to the high-end, where ultimate processing power and reliability is of paramount importance to the mission. Our commercially-developed product capabilities cover the entire intelligence, surveillance and reconnaissance (“ISR”) spectrum from acquisition and digitization of the signal, to processing of the signal, through the exploitation and dissemination of the information. We work continuously to improve our hardware technology with an eye toward optimization of SWaP demands.

We partner with global tech leaders to align technology roadmaps and deliver cutting-edge computing in scalable, field-deployable form factors that are fully configurable to each unique workload. We use the latest Intel® server-class processing



products, AMD Field Programmable Gate Arrays (“FPGA”), as well as NVIDIA GPU products in our embedded high-performance processing technologies. While this multi-computing and embedded processing technology is one of our core capabilities, the SWaP constraints inherent in high-performance embedded processing applications create unique challenges. For example, to deal with the heat build-up involved in fanless compact rugged subsystems, we introduced a key technology called Air Flow-By™ that enables previously unattainable levels of processing power within a small footprint by effectively removing heat so server-class processors can perform at maximum designed power limits. In environments where air is limited, such as high-altitude operations, our Liquid-Flow-By™ technology allows maximum server-class processor performance. These innovative cooling techniques allow full performance server-class processing in rugged environments enabling new and advanced modes of operation that enhance the multi-intelligence, situational awareness and electronic warfare capabilities in military platforms.

Embedded systems security has become a requirement for new and emerging military programs and our security solutions are a critical differentiator from our traditional competition. These security solutions, combined with our next-generation secure Intel® server-class product line, together with increasingly frequent mandates from the government to secure electronic systems for domestic and foreign military sales, position us well to capitalize on DoD program protection security requirements. Finally, our built-in security framework creates higher product differentiation, and drives greater program velocity, while lowering risk.

#### *Open Standards Support*

Mercury has a long history of driving modular open systems architectures and has remained committed to creating, advancing and adopting open standards for all our products, from our smallest components and connectors to our largest, high-performance, integrated multi-computer systems. With forty years of technology leadership within the high-performance embedded computing industry, we have pioneered or contributed to the development of many of the defense industry’s current and emerging open standards, including standards such as RACEway, RapidIO, VXS, VPX, REDI and notably OpenVPX. These open standards allow system integrators to benefit from the interoperability of modules produced by multiple vendors. We also continue to be influential in the industry-standards organizations associated with our market segments. As a member of the VMEbus International Trade Association (“VITA”), the Sensor Open Systems Architecture (“SOSA”) initiative, the Future Airborne Capability Environment (“FACE”) consortium and the Vehicular Integration for C4ISR/EW Interoperability (“VICTORY”) consortium, among other standards bodies, Mercury is helping to guide the aerospace and defense industry toward greater openness and vendor interoperability, consistent with the DoD’s focus on using MOSA in major programs.

Our software is based on open standards and includes heterogeneous processor support with extensive highly-optimized math libraries, multi-computing switch fabric support, net-centric and system management enabling services, extended operating system services, board support packages and development tools. This software platform delivers on the performance required for highly tuned real-time operation with the flexibility of open standards that are an essential ingredient of technology insertion and software life-cycle support.

As the U.S. government mandates more outsourcing and open standards, a major shift is occurring within the defense prime contractor community towards procurement of integrated subsystems that enable quick application level porting through standards-based methodologies. We believe that our core expertise in this area is well aligned to capitalize on this trend. By leveraging our open architecture and high-performance modular product set, we provide defense prime contractors with rapid deployment and quick reaction capabilities through our professional services and systems integration offerings. This results in less risk for the defense prime contractors, shortened development cycles, quicker solution deployment and reduced life-cycle costs.

#### *Commitment to Deliver Uncompromised*

For Mercury, this means ensuring our products and solutions have not been and cannot be tampered with, and that what we deliver to our customers is not compromised at any point during the development lifecycle, from procurement to manufacturing. Our holistic approach to deliver uncompromised includes:

- vigorously mitigating potential insider threats;
- proactively protecting our IT infrastructure with strong cybersecurity defenses;
- effectively managing and assessing our suppliers’ controls; and
- judiciously controlling design information through the entire development process.

We are investing in digital transformation, insider trust, cybersecurity, supply chain management and trusted microelectronics, all integral to our commitment to being a leader in delivering uncompromised solutions to our customers.

## Recent Acquisitions

Since 2015 we have acquired and integrated 15 businesses. These acquisitions have expanded Mercury's technology portfolio with capabilities such as digital signal processing products, high-performance RF modules and components, rugged avionics and electronics, and safety-certifiable subsystems. The five acquisitions completed since July 1, 2019 are shown below.

<b>Name of Acquired Entities</b>	<b>Date of Acquisition</b>
American Panel Corporation	September 23, 2019
Physical Optics Corporation	December 30, 2020
Pentek Systems, Inc. and Pentek Technologies, LLC	May 27, 2021
Avalex Technologies, LLC	November 5, 2021
Atlanta Micro, Inc.	November 29, 2021

## Our Market Opportunity

Our market opportunity is defined by the growing demand for domestically designed, sourced and manufactured electronics for critical aerospace, defense and intelligence applications. Our primary market positioning is centered on making commercially available technologies profoundly more accessible to the aerospace and defense sector, specifically as it relates to C4I systems, sensors and EW; and commercial markets, which include aerospace communications and other computing applications. We believe we are well-positioned in growing sustainable market segments of the aerospace and defense sector that rely on advanced technologies to improve warfighter capability and provide enhanced force protection capabilities. The acquisitions of the Carve-Out Business, Delta, Syntonic, Pentek and Atlanta Micro further improved our ability to compete successfully in these market segments by allowing us to offer an even more comprehensive set of closely related capabilities. The CES, RTL, GECO, APC, POC and Avalex acquisitions provided us new capabilities that substantially expanded our addressable market into defense platform management, mission computing and commercial aerospace markets that are aligned to our existing market focus. The additions of Themis and Germane provided us with new capabilities and positioned us with a significant footprint within the rugged server business. Our organic investments as well as the acquisitions of LIT, the Carve-Out Business and Athena added to our portfolio of embedded security products that can be leveraged across our business. Finally, our CES addition, due to its location in Geneva, Switzerland is helping to open more opportunities in international markets.

We believe there are a number of evolving trends that are reshaping our target markets and accordingly provide us with attractive growth opportunities. These trends include:

- *The aerospace and defense electronics market is expected to grow in 2023 and beyond.* According to Renaissance Strategic Advisors ("RSA"), as of June 2023, the global aerospace and defense electronics market is estimated to be \$148 billion in 2023, growing to \$199 billion by 2028. Within this global market, RSA estimates that the total Tier 2 defense electronics market, which Mercury participates in, was approximately \$48 billion in 2023, and will grow to \$67 billion in 2028. The aerospace and defense electronics marketplace consists of two primary subsegments: (i) C4I and (ii) sensor and effector mission systems. C4I encompasses platform and mission management, which include avionics and vetronics, C2I, which includes command and control and intelligence, and dedicated communications processing. Sensor and effector mission systems are primarily different types of sensor modalities such as EW, radar, EO/IR and acoustics as well as weapons systems such as missiles and munitions. Within the global Tier 2 C4I market in which we participate, RSA estimated the market for 2023 to be \$7.7 billion for platform and mission management, \$9.7 billion for C2I and \$10.2 billion for dedicated communications. RSA estimates the compound annual growth rate ("CAGR") from 2023-2028 for these markets to be 5.9% for platform and mission management, 6.6% for C2I and 6.9% for dedicated communications. Within the global Tier 2 sensor and effector mission systems market in which we participate, RSA estimated the market for 2023 to be \$6.0 billion for EW, \$6.6 billion for radar, \$2.7 billion for EO/IR, \$1.4 billion for acoustics and \$3.9 billion for weapons systems. RSA estimates the 2023-2028 CAGR for these markets to be 6.7% for EW, 6.5% for radar, 7.6% for EO/IR, 6.8% for acoustics and 8.4% for weapons systems. Within the context of the overall U.S. defense budget and spending for defense electronics specifically, we believe the C4ISR, EW, guided missiles and precision munitions and ballistic missile defense market segments have a high priority for future DoD spending. We continue to build on our strengths in the design and development of performance optimized electronic subsystems for these markets, and often team with multiple defense prime contractors as they bid for projects, thereby increasing our chance of a successful outcome. We expect to return to our above industry-average growth.
- *The rapidly expanding demand for tactical ISR is leading to significant growth in sensor data being generated, leading to even greater demand for the capability of our products to securely store and process data onboard platforms.* An

increase in the prevalence and resolution of ISR is generating significant growth in the associated data that needs to be stored and turned into information for the warfighter in a timely manner. In addition, several factors are driving the defense and intelligence industries to demand greater capability to collect, store and process data onboard the aircraft, UAVs, ships and other vehicles, which we refer to collectively as platforms. These factors include the limited communications bandwidth of existing platforms, the need for platforms that can operate more autonomously and possibly in denied communications environments, the need for platforms with increased persistence to enable them to remain in or fly above the battlefield for extended periods and the need for greater onboard processing capabilities. In addition, the advent of sophisticated AI algorithms is beginning to revolutionize the ability of sensor processing systems to intelligently and efficiently process and act upon these large data sets. Standard computing architectures and computing platforms currently do not offer the level of performance needed to optimize existing AI algorithms, creating an additional opportunity for advanced processing capabilities onboard the platform.

- *Russia's invasion of Ukraine, rising tensions in the Asia-Pacific and continued threats from rogue states and violent extremists are contributing to the most challenging global threat environment since the Cold War.* This will likely result in a sea change in defense spending domestically and internationally. Our advisors estimate that U.S. growth, combined with increases in NATO defense budgets, could drive up to \$1.5 trillion of additional spending over the next decade. This should lead to higher bookings for Mercury in the electronic systems associated with missiles, munitions and missile defense systems, unmanned systems, fixed wing and rotorcraft, ground vehicles and EW.
- *A greater percentage of the value associated with future defense platforms will be driven by electronic systems content, and upgrades to existing platforms will focus on sensors, signal processing, sensor algorithms, multi-intelligence fusion and exploitation and computing and communications capability – all areas where Mercury participates.* These trends remain favorable in our view and the demand environment is improving due to urgent needs for warfighting capability at a more rapid pace than traditional defense prime contractors can easily react to, as demonstrated by our strong bookings and design wins, in fiscal 2023. We believe that our addressable market continues to increase, driven in large part by our strategic move into mission systems and potential to deliver innovative processing solutions at chip scale, and that primes will increasingly seek out our high-performance, cost-effective open architecture products.
- *Defense procurement reform is causing the defense prime contractors to outsource more work to commercial companies and we believe that prime contractor outsourcing is our largest secular growth opportunity.* RSA estimates that in 2023 the U.S. defense Tier 2 embedded computing and RF market addressable by suppliers such as Mercury was approximately \$25 billion. RSA estimates that the U.S. defense prime contractors currently outsource only a small percentage of their work. On a global basis the Tier 2 embedded computing and RF market in 2023 was estimated by RSA to be \$48 billion. The U.S. government is intensely focused on making systems more affordable and shortening their development time. In addition, the U.S. government is challenging defense prime contractors to leverage commercial technology wherever possible. This trend, along with a scarcity of technical and engineering talent in the market, is causing defense prime contractors to outsource to companies like Mercury, which we believe is our largest secular growth opportunity. As a merchant supplier of commercial technologies to the defense industry, we believe our products and subsystem solutions are often more affordable than solutions with the same functionality developed by a defense prime contractor. In addition, we believe our size, scale and stability in addition to the investments we have made in our domestic manufacturing capabilities and infrastructure, make us a more reliable and attractive outsourcing partner for our customers relative to smaller sub-scale providers. These factors are providing incentives for defense prime contractors to outsource more work to subcontractors with significant expertise and cost-effective technology capabilities and solutions, and we have transformed our business model over the last several years to address these long-term outsourcing trends and other needs.
- *DoD security and program protection requirements are creating new opportunities for domestic sourcing and our advanced secure processing capabilities.* The U.S. government is focused on ensuring that the U.S. military protects its defense electronic systems and the information held within them from nefarious activities such as tampering, reverse engineering and other forms of advanced attacks, including cyber. The requirement to add security comes at a time when the commercial technology world continues to offshore more of the design, development, manufacturing and support of such capabilities, making it more difficult to protect against embedded vulnerabilities, tampering, reverse engineering and other undesired activities. The DoD has a mandate to ensure both the provenance and integrity of the technology and its associated supply chain. These factors have created a unique opportunity for us to expand beyond sensor processing into the provision of technologies ranging from advanced secure processing subsystems to miniaturized custom microelectronics devices and capabilities for other onboard critical computing applications designed, developed, manufactured and supported in the U.S.A. In addition, advanced systems sold to foreign military buyers also require protection so that the technologies, techniques and data associated with them do not proliferate, which further enhances our market opportunity.

- *Mercury is well-positioned to help address the need for DoD to access the latest commercial silicon, combined with the desire to ensure a trusted domestic supply of silicon technologies.* In May 2023, DoD's National Defense Science and Technology Strategy listed microelectronics among its critical technology areas for investment. DoD's FY23 budget requested \$3.3 billion to fund microelectronics research and development initiatives, a historically large increase in funding. Congress' passage of the Creating Helpful Incentives to Produce Semiconductors ("CHIPS") act in August 2022, which will provide \$2 billion for defense microelectronics, further amplifies the U.S. government's commitment to reinforcing the U.S. semiconductor supply chain. We believe Mercury is the leading provider of commercially developed silicon purpose-built for the specific requirements of aerospace and defense customers. This capability began with our 2016 acquisition of the Carve-Out Business, which included capabilities in trusted and secure microelectronics. Since the acquisition, we have made additional investments in security and advanced packaging, most notably our announced \$15 million capital investment in fiscal year 2020 to expand our trusted custom microelectronics business in Phoenix, Arizona, to bring cutting-edge commercial silicon to the DoD. This initiative is specifically intended to bridge DoD technologies from monolithic ASIC designs, which are purpose-built for DoD but are deployed on legacy silicon designs, to heterogeneous "chiplet" architectures, which leverage best-of-breed silicon from commercial providers and packages the silicon for defense-specific applications, including the ability to embed security into the device itself.

## **Our Competitive Strengths**

We believe the following competitive strengths will allow us to take advantage of the evolving trends in our industry and successfully pursue our business strategy:

- *Subsystem Solutions Provider for the C4ISR and Electronic Warfare Markets.* Through our commercially developed, specialized processing subsystem solutions, we address the challenges associated with the collection and processing of massive, continuous streams of data and dramatically shorten the time that it takes to give information to U.S. armed forces at the tactical edge. Our solutions are specifically designed for flexibility and interoperability, allowing our products to be easily integrated into larger system-level solutions. Our ability to integrate subsystem-level capabilities allows us to provide solutions that effectively address the mission-critical challenges within the C4ISR market, including multi-intelligence data fusion and AI processing onboard the platform. We leverage our deep expertise in embedded multicomputing, embedded sensor processing, with the addition of our RF microwave and millimeter subsystems and components, along with strategic investments in research and development to provide solutions across the sensor processing chain.
- *Diverse Mix of Stable, Growth Programs Aligned with DoD Funding Priorities.* Our products and solutions have been deployed on more than 300 different programs and over 25 different defense prime contractors. We serve high priority markets for the DoD and foreign militaries, such as UAVs, ballistic missile defense, guided missiles and precision munitions, airborne reconnaissance, electronic warfare and have secured positions on mission-critical programs including Aegis, Predator and Reaper UAVs, F-35 Joint Strike Fighter, LTAMDS, Patriot missile, SEWIP and Paveway. In addition, we consistently leverage our technology and capabilities across multiple programs, providing significant operating leverage and cost savings. Our acquisitions allow us to participate in a broader array of programs, many with key strategic customers of ours.
- *We are a leading technology company serving the aerospace and defense industry.* We have a portfolio of Open Standards Architecture ("OSA") technology building blocks across the entire sensor processing chain. We offer embedded secure processing capabilities with advanced packaging and cooling technologies that ruggedize commercial technologies while allowing them to stay cool for reliable operation. These capabilities allow us to help our customers meet the demanding SWaP requirements of today's defense platforms. Our pre-integrated subsystems improve affordability by substantially reducing customer system integration costs and time-to-market for our solutions. System integration costs are one of the more substantial costs our customers bear in developing and deploying technologies in defense programs and platforms. Our pre-integrated solutions approach allows for more rapid and affordable modernization of existing platforms and faster deployment of new platforms.

Our strengths in this area include our position as an early and leading advocate for OSA in defense, offering Intel® server class processing form factors across 3/6U OpenVPX, ATCA and rack-mount architectures and high density, secure solutions across multiple hardware architectures to seamlessly scale to meet our customers' SWaP requirements. In addition, we have a 30-year legacy of system management and system integration expertise that allows us to reduce technical risk, while improving affordability and interoperability. Our system integration expertise is a cornerstone in helping us support our customers in deploying pre-integrated, OSA subsystems.

As commercial technology companies have moved the design, development, manufacturing and support of their technologies offshore, the DoD is looking to domestic technology providers to develop a sustainable, U.S.-based trusted supply chain. Over several years we have been building out our capacity for domestic manufacturing through our Advanced



Microelectronics Centers (“AMCs”). These facilities provide significant scale and capacity for our defense prime customers, who have been increasingly willing to outsource to partners with the scale needed to meet large program production requirements. In addition, our Phoenix, Arizona AMC is a Defense Microelectronics Activity (“DMEA”)-certified, trusted manufacturing facility, which represents a significant competitive advantage. Our Phoenix AMC also includes a surface mount technology manufacturing capability which we refer to as our U.S. Manufacturing Operations (“USMO”).

- *We provide advanced, integrated security features for our products and subsystems, addressing an increasingly prevalent requirement for DoD program security.* We offer secure processing expertise that is built-in to our pre-integrated subsystems. By doing this we are able to provide secure building blocks that allow our customers to also incorporate their own security capabilities. This assists our customers in ensuring program protection as they deploy critical platforms and programs, all in support of DoD missions. The acquisition of the Carve-Out Business brought us new security technologies and also allowed us to provide enhanced security capabilities in areas such as memory and storage devices. Our acquisitions of the Carve-Out Business, LIT and Athena also added to our portfolio of sophisticated firmware and software specifically designed to secure microelectronic devices that can be leveraged across our product portfolio.
- *We are pioneering a next generation defense business model.* The DoD and the defense industrial base is currently undergoing a major transformation. Domestic political and budget uncertainty, geopolitical instability and evolving global threats have become constants. The defense budget remains under pressure and R&D and technology spending are often in budgetary competition with the increasing costs of military personnel requirements, health care costs and other important elements within the DoD and the federal budget generally. Finally, defense acquisition reform calls for the continued drive for innovation and competition within the defense industrial base, while also driving down acquisition costs. Our approach is built around a few key pillars:
  - The mission-ready products in our portfolio can be incorporated into aerospace and defense platforms in their standard commercial forms or customized to meet unique program requirements.
  - We continue to leverage our expertise in building pre-integrated subsystems in support of critical defense programs, driving out procurement costs by lowering integration expenses of our customers.
  - We have been a pioneer in driving OSA for both embedded computing and RF.
  - The DoD has asked defense industry participants to invest their own resources into R&D. This approach is a pillar of our business model.
  - Security and program protection are now critical considerations for both program modernizations as well as for new program deployment. We are now in our fourth generation of building secure embedded processing solutions.

We have a next generation business model built to meet the emerging needs of the DoD.

- *Value-Added Subsystem Solution Provider for Defense Prime Contractors.* Because of the DoD’s continuing shift toward a firm fixed price contract procurement model, an increasingly uncertain budgetary and procurement environment, and increased budget pressures from both the U.S. and allied governments, defense prime contractors are accelerating their move toward outsourcing opportunities to help mitigate the increased program and financial risk. Our differentiated secure sensor and safety-critical processing solutions offer meaningful capabilities upgrades for our customers and enable the rapid, cost-effective deployment of systems to the end customer. We believe our open architecture subsystems offer differentiated sensor processing and data analytics capabilities that cannot be easily replicated. Our solutions minimize program risk, maximize application portability and accelerate customers’ time to market, all within a fixed-pricing contracting environment.
- *Delivery of Platform-Ready Solutions for Classified Programs.* We believe our integration work provides us with critical insights as we implement and incorporate key classified government intellectual property, including critical intelligence and signal processing algorithms, into advanced systems. This integration work provides us the opportunity to combine directly and integrate our technology building blocks along with our intellectual property into our existing embedded processing products and solutions, enabling us to deliver more affordable, platform-ready integrated ISR subsystems that leverage our OSA and address key government technology and procurement concerns. Our operations in this environment also help us identify emerging needs and opportunities to influence our future product development, so that critical future needs can be met in a timely manner with commercially-developed products and solutions.
- *We have invested in advanced, domestic design and manufacturing capabilities.* We have prioritized investments to build our internal capabilities and capacity for defense electronics design and manufacturing in the U.S. These investments include the consolidation of a number of sub-scale microelectronics manufacturing facilities into our modern AMCs as well as the establishment of our USMO in Phoenix, Arizona. In addition to the consolidation of

facilities into scalable engineering and manufacturing centers of excellence, we have made the necessary investments to outfit these facilities with modern, scalable and redundant tools and equipment to promote quality, efficiency, throughput and redundancy. In addition we invested in our information technology (“IT”) infrastructure and business systems to meet Defense Federal Acquisition Regulation Supplement (“DFARS”) requirements for cybersecurity. These investments taken together are intended to demonstrate our commitment to meeting DoD expectations for a trusted and secure defense industrial base. Our AMCs in Hudson, New Hampshire, West Caldwell, New Jersey, Oxnard, California, Huntsville, Alabama, Phoenix, Arizona and Torrance, California are strategically located near key customers and are purpose-built for the design, build and test of RF components and subsystems in support of a variety of key customer programs. Our USMO is built around scalable, repeatable, secure, affordable and predictable manufacturing. The USMO is a IPC1791 certified secure trusted site, certified to AS9100 quality standards and it utilizes Lean Six Sigma methodologies throughout manufacturing. The USMO is designed for efficient manufacturing, enabling our customers to access the best proven technology and high performing, secure processing solutions. This allows for the most repeatable product performance, while optimizing affordability and production responsiveness.

- *Long-Standing Industry Relationships.* We have established long-standing relationships with defense prime contractors, the U.S. government and other key organizations in the defense industry over our 30 years in the defense electronics industry. Our top customers include Airbus, BAE Systems, Boeing, General Atomics, General Dynamics, L3Harris Technologies, Leonardo, Lockheed Martin Corporation, Northrop Grumman Corporation, RTX Corporation (formerly known as Raytheon Technologies) and the U.S. Navy. Over this period, we have become recognized for our ability to develop new technologies and meet stringent program requirements. We believe we are well-positioned to maintain these high-level customer engagements and enhance them through the additional relationships that our recently acquired businesses have with many of the same customers.
- *Operational Execution Experience.* The members of our leadership team possess extensive expertise within the aerospace, defense, and technology industries. Their collective history of building management systems and processes has consistently proven to successfully scale and grow a business to enhance overall returns. They also bring experience in effectively implementing operational transformations that deliver strong results and drive long-term value creation. Our leadership team is focused on operational execution, including setting clear priorities, developing the appropriate processes and systems, and delivering results. We are focused on four priorities to unlock capacity to create value and reinvest for growth. They include: delivering predictable results, build a thriving growth engine, expanding margins, and driving cash release. We are confident that we have assembled the necessary expertise to continue to grow and scale our business.
- *Mature M&A Origination and Execution Capability.* We have a strong track-record of identifying and executing strategic acquisitions. Since July 1, 2015 we have acquired 15 businesses, which are strategically aligned with Mercury, successfully completing integration of the earlier acquired businesses with the integration of the more recent acquisitions progressing well. We have established an internal team that brings decades of experience across more than 100 transactions. We have developed internal processes to identify and source strategic acquisitions on a proprietary basis and negotiated directly with owners on a number of acquisitions. Our internal capabilities include financial, legal and other transaction diligence, deal valuation and deal negotiations.
- *Proven M&A Integration Capability.* We have developed the internal processes and capability to integrate acquired businesses to deliver value through revenue and cost synergies. Overseen by our Execution Excellence organization, we leverage our common cultures and values as well as common processes, business systems, tools, channels and manufacturing infrastructure to accelerate growth and improve profitability in our acquired businesses.

## Competition

We operate in a highly competitive marketplace characterized by rapidly changing technology, frequent product performance improvements, increasing speed of deployment to align with warfighters’ needs and evolving industry standards and requirements coming from our customers or the DoD. Competition typically occurs at the design stage of a prospective customer’s product, where the customer evaluates alternative technologies and design approaches. We work with defense prime contractors as well as directly with the DoD. We help drive subsystem development and deployment in both classified and unclassified environments.

The principal competitive factors in our market are price/performance value proposition, available new products at the time of design win engagement, services and systems integration capability, effective marketing and sales efforts and reputation in the market. Our competitive strengths include rapid, innovative engineering in both hardware and software products, subsystem design expertise, advanced packaging capability to deliver the most optimized SWaP solution possible, our ability to respond rapidly to varied customer requirements and a track record of successfully supporting many high profile programs in the defense market. There are competitors in the different market segments and application types in which we participate. Some of these competitors are larger and have greater resources than us. Some of these competitors compete against us at purely a

component or board-level, others at a subsystem level. We also compete with in-house design teams at our customers. The DoD as well as the defense prime contractors are pushing for more outsourcing of subsystem designs to mitigate risk and to enable concurrent design of the platform which ultimately leads to faster time to deployment. We have aligned our strategy to capitalize on that trend and are leveraging our long standing subsystem expertise to provide this value to our customers.

## **Research and Product Development**

Our R&D efforts are focused on developing new products and subsystems as well as enhancing existing hardware and software products in mission, signal and image processing. Our R&D goal is to fully exploit and maintain our technological lead in the high-performance, real-time sensor processing industry and in mission computing, microelectronics, platform management and other safety-critical applications. Total expenditures for research and development amounted to \$108.8 million, \$107.2 million and \$113.5 million in fiscal years 2023, 2022 and 2021, respectively. As of June 30, 2023, we had 918 employees, including hardware and software architects and design engineers, primarily engaged in engineering and research and product development activities. These individuals, in conjunction with our sales team, also devote a portion of their time to assisting customers in utilizing our products, developing new uses for these products and anticipating customer requirements for new products.

## **Manufacturing**

The majority of our sales are produced in AS9100 quality system-certified facilities. The current scope of delivered hardware products includes commercial and industrial class printed circuit board assemblies (modules), complex chassis subsystems, rugged display system and servers and RF and microwave components and subsystems.

Our Phoenix, Arizona facility manufactures our custom microelectronics products in an AS9100 quality system-certified facility while our USMO facility is an IPC1791 certified and DMEA-certified trusted manufacturing facility and is primarily focused on advanced secure system-on-chip design, assembly, packaging and test. Our Cypress, California, West Lafayette, Indiana, and Huntsville, Alabama facilities are AS9100 quality systems-certified facilities as well. Our Fremont, California and Alpharetta, Georgia facilities are ISO 9001:2015 quality systems-certified. Our Hudson, New Hampshire and Chantilly, Virginia locations are IPC1791 and AS9100 quality systems-certified facility. Our Andover, Massachusetts and Hudson, New Hampshire facilities design and assemble our processing products and are AS9100 quality systems-certified facilities. Our Andover, Massachusetts facility is also a DMEA-certified trusted design facility and is primarily focused on advanced security features for the processing product line. Our Geneva, Switzerland facility, the headquarters of Mercury's European operations, provides electronic design and manufacturing, maintenance and support services and is AS9100 and EASA Part 145 quality systems-certified. Our Silchester, England facility provides engineering, development and integration services and is AS9100 quality systems-certified.

We rely on both vertical integration and subcontracting to contract manufacturers to meet our manufacturing needs. Our USMO and Geneva facilities have the manufacturing capabilities to complete the assembly and testing for certain of our embedded multi-computing products. We subcontract as needed a portion of the assembly and testing for our other embedded multi-computing products to contract manufacturers in the U.S. to build to our specifications. Our printed circuit board assemblies and chassis subsystems' manufacturing operations also consist of materials planning and procurement, final assembly and test and logistics (inventory and traffic management). Our vertically integrated subsystem product solutions rely on strong relationships with strategic suppliers to ensure on-time delivery and high quality products. We manage supplier performance and capability through quality audits and stringent source, incoming and/or first article inspection processes. We have a comprehensive quality and process control plan for each of our products, which include a supply chain management program and the use of automated inspection and test equipment to assure the quality and reliability of our products. We perform most post sales service obligations (both warranty and other lifecycle support) in-house through a dedicated service and repair operation. We periodically review our contract manufacturing capabilities to ensure we are optimized for the right mix of quality, affordability, performance and on-time delivery.

Our AMC in Phoenix, Arizona is built around scalable, repeatable, secure, affordable and predictable manufacturing. The high mix, low volume and high complexity/density nature of our products require speed and seamless interaction with all internal functions (as opposed to with an external contract manufacturer) which is a key value proposition of the USMO. The USMO is also designed for efficient showcasing to customers who at any point wish to access the best proven technology and high performing, secure electronics and processing manufacturing solutions within a broader product company such as Mercury. Proximity and interaction with our internal engineering organization is a significant benefit. This allows for the most repeatable product performance, while optimizing affordability and production responsiveness. The Phoenix AMC also provides manufacturing and assembly for SWaP-optimized multi-chip modules and system-in-package devices. We combine surface-mount, flip chip, die attach, wire bond and rugged 3D packaging on the same devices to provide a swap-optimized solution for our customers.

The Hudson, New Hampshire, West Caldwell, New Jersey and Oxnard, California facilities are specifically aimed at providing scalable manufacturing within our critical businesses. We leverage best practices in design, development,

manufacturing and materials handling at these production and subsystems integration facilities. These facilities include the design, build and test of both RF and microwave components and subsystems in support of a variety of key customer programs. Our Alpharetta, Georgia facility offers active matrix liquid crystal display systems which enhances the highly sophisticated man/machine interface. Our facility in Torrance, California is an AS9100 and AS9110C facility that offers Avionics Safety-Certifiable subsystems. Our facility in Upper Saddle River, New Jersey is ISO 9001:2015 certified and offers digital signal processing products. Our facility in Gulf Breeze, Florida is AS9100 certified and offers rugged avionics and electronics. Our facility in Norcross, Georgia is AS9100 certified and offers RF and microwave products.

Although we generally use standard parts and components for our products, certain components, including custom designed ASICs, static random access memory, FPGAs, microprocessors and other third party chassis peripherals (single board computers, power supplies, blowers, etc.), are currently available only from a single source or from limited sources.

We also design, develop and manufacture DRFM units for a variety of modern electronic warfare applications, as well as radar environment simulation and test systems for defense and intelligence applications. We develop high performance signals intelligence payloads and EO/IR technologies for small UAV platforms as well as powerful onboard UAV processor systems for real-time wide area motion imagery.

### **Intellectual Property and Proprietary Rights**

We hold a broad collection of intellectual property rights to protect our proprietary technology and our brand. This includes patents, designs, copyrights, trademarks and trade secrets in the U.S. and various foreign countries. Although we believe the ownership of such intellectual property rights is an important factor in differentiating our business and that our success depends in part on such ownership, we rely primarily on the innovation skills and technical expertise of our employees.

We regularly file patent and trademark applications and continuations to protect innovations arising from our research and development. We also rely on a combination of trade secret, copyright and trademark laws, as well as contractual agreements, to safeguard our proprietary rights in technology and products. In seeking to limit access to sensitive information to the greatest practical extent, we routinely enter into confidentiality and assignment of invention agreements with each of our employees and consultants and nondisclosure agreements with our customers and vendors.

We have licensed in the past, and expect that we may license in the future, certain of our rights to other parties. Some of our products are designed to include intellectual property owned by third parties. It may be necessary in the future to seek or renew licenses to various aspects of our products, processes and services.

Over time, we have accumulated a meaningful portfolio of issued and registered intellectual property rights. No single intellectual property right is solely responsible for protecting our products, processes and services. We believe the duration of our intellectual property rights is adequate relative to the expected lives of our products, processes and services.

### **Backlog**

As of June 30, 2023, we had a backlog of orders aggregating approximately \$1,139.8 million, of which \$716.4 million is expected to be recognized as revenue within the next twelve months. As of July 1, 2022, backlog was approximately \$1,037.7 million. Our backlog is comprised of accepted purchase orders for which a majority are fully funded. Orders included in backlog may be canceled or rescheduled by customers, although the customer may incur cancellation penalties depending on the timing of the cancellation. A variety of conditions, both specific to the individual customer and generally affecting the customer's industry, may cause customers to cancel, reduce or delay orders that were previously made or anticipated. We cannot assure the timely replacement of canceled, delayed or reduced orders.

### **Employees**

At June 30, 2023, we employed a total of 2,596 people excluding contractors, including 918 in research and development, 154 in sales and marketing, 1,158 in manufacturing and customer support and 366 in general and administrative functions. We have 140 employees located in Europe and 2,456 located in the United States. We also use contractors on an as-needed basis.

### **Human Capital**

At Mercury, our people are at the center of everything we do in driving Innovation That Matters® by and for People Who Matter. We recognize that Mercury will succeed only if our employees are engaged, given an opportunity to develop and provided with a safe workplace that values diverse perspectives from a population that represents our communities. Our Board of Directors provides oversight of our people practices, including regularly reviewing workforce metrics such as those described below. Additional data related to these metrics can be found on our website at [www.mrcy.com](http://www.mrcy.com) under the Company – Environmental, Social and Governance tab (our “Website”).



- **Employee Overview:** As of June 30, 2023, we had 2,596 employees around the globe. Our primary operations are in the U.S. with 2,456 employees and we operate offices in 11 states. Mercury also has operations in Europe and Canada. No employees are covered by any collective bargaining or similar agreements.

- **Culture and Employee Engagement:** We believe our workplace culture drives engagement that turns ideas into action, delivering trusted and secure solutions at the speed of innovation. During the past fiscal year, four of our products were recognized among the most innovative solutions in aerospace and defense products and systems by the judges of the 2022 Military & Aerospace Electronics Innovators Awards program, marking the seventh consecutive year in which we have been recognized. Our investment in our employees extends to our workplaces. For fiscal 2023, we invested over \$38.8 million to upgrade our locations to world-class facilities. We also encourage employees to give back to our communities.

We regularly seek employee input through engagement surveys, the results of which drive meaningful and timely action, as appropriate, from our leadership team and people leaders across the Company. Participation in our most recent employee engagement survey in April 2023 remained strong at 76%.

- **Training and Development:** Life-long learning is encouraged at Mercury through our offering of LinkedIn Learning, tuition reimbursement and other employee development opportunities. We are deeply invested in building the next generation of engineers and scientists, with our internship and co-op programs. We offer a two-year engineering rotational program to recent graduates in electrical, firmware, software, RF and systems engineering disciplines. During the program, employees gain insight and experience rotating through multiple business units and engineering disciplines and upon program completion are matched with a position. Mercury also has formal programs to further develop our leaders, at various levels: Mentor Programs, Mercury Managers Matter (for manager- and director-level employees); and Managing at Mercury (for supervisors, team leaders and new managers)

- **Pay and Benefits:** We seek competitiveness and fairness in total compensation with reference to external pay data and internal equity. We also offer a variety of well-being programs to support our employees and their families with healthy living. These programs include paid time off, paid parental leave, health insurance coverage, voluntary benefits (including pet insurance and caregiver support), company contributions to retirement savings and employee assistance and work-life programs. In addition, we offer employees less traditional benefits to support employee well-being such as access to fitness and meditation apps, as well as an online platform through which employees participate in healthy living challenges and earn financial rewards.

- **Environmental, Health and Safety:** On our Website, we disclose environmental stewardship, quality and safety information, including OSHA injury data. We received a AAA MSCI ESG during 2021 and 2022, placing us in the top 3% of their ratings group for aerospace and defense.

- **Diversity, Equity & Inclusion:** Our Website discloses detailed workplace data surrounding our gender diversity, racial/ethnic diversity and turnover data. As of June 30, 2023, women and racially/ethnically diverse employees represented 29% and 43%, respectively, of Mercury's workforce. Development of a diverse talent pipeline is a business imperative at Mercury and critical to our ability to drive innovation and improve long-term results. We have established relationships with job networks and educational institutions to proactively attract a diverse pool of talent. Our employees are afforded opportunities to cultivate diversity, equity and inclusion both within Mercury and our industry. For example, Mercury sponsors, and our leaders participate in, the annual Simmons Leadership Conference which has the goal of preparing the next generation of female leaders and furthering equality in the workplace. Mercury has conducted pay equity assessments and made adjustments to pay levels for employees in protected classes, as appropriate, as a result of such assessments.

## Customers

RTX Corporation comprised 14%, 14%, and 19% of our revenues in each of the fiscal years 2023, 2022 and 2021, respectively. Lockheed Martin comprised 13%, 10%, and 15% of our revenues in each of the fiscal years 2023, 2022 and 2021, respectively. The United States Navy comprised less than 10%, 14% and 12% of our revenues in fiscal years 2023, 2022 and 2021, respectively. Northrop Grumman accounted for 11% of our revenues in fiscal 2023 and less than 10% in fiscal years 2022 and 2021, respectively. While sales to each of these customers comprise 10% or more of our annual revenue, the sales to these customers are spread across multiple programs and platforms. For the fiscal years ended 2023, 2022 and 2021, we had no single program that represented 10% or more of our revenues.

## Corporate Headquarters and Incorporation

Our corporate headquarters is located in Andover, Massachusetts. Mercury Systems, Inc. was incorporated in Massachusetts in 1981.

## Financial Information about Geographic Scope

Information about revenue we receive within and outside the U.S. can be found in Note Q - Operating Segment, Geographic Information and Significant Customers - to the accompanying Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

## WEBSITE

We maintain a website at [www.mrcy.com](http://www.mrcy.com). We make available on our website, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, including exhibits and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). Our code of business conduct and ethics is also available on our website. We intend to disclose any future amendments to, or waivers from, our code of business conduct and ethics within four business days of the waiver or amendment through a website posting or by filing a current report on Form 8-K with the SEC. Information contained on our website does not constitute part of this report. Our reports filed with, or furnished to, the SEC are also available on the SEC’s website at [www.sec.gov](http://www.sec.gov).

Investors and others should note that we announce material financial information using our website ([www.mrcy.com](http://www.mrcy.com)), SEC filings, press releases, public conference calls, webcasts, and social media, including Twitter ([twitter.com/mrcy](https://twitter.com/mrcy) and [twitter.com/mrcy\\_CEO](https://twitter.com/mrcy_CEO)) and LinkedIn ([www.linkedin.com/company/mercury-systems](http://www.linkedin.com/company/mercury-systems)). Therefore, we encourage investors and others interested in Mercury to review the information we post on the social media and other communication channels listed on our website.

## ITEM 1A. RISK FACTORS:

### Risks Related to Business Operations and Our Industry

**We depend heavily on defense electronics programs that incorporate our products and services, which may be only partially funded and are subject to potential termination and reductions and delays in government spending.**

Sales of our products and services, primarily as a subcontractor or team member with defense prime contractors, and in some cases directly, to the U.S. government and its agencies, as well as foreign governments and agencies, accounted for approximately 98%, 97% and 98% of our total net revenues in fiscal years 2023, 2022, and 2021, respectively. Our products and services are incorporated into many different domestic and international defense programs. Over the lifetime of a defense program, the award of many different individual contracts and subcontracts may impact our products’ requirements. The funding of U.S. government programs is subject to Congressional appropriations. Although multiple-year contracts may be planned in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may continue for many years. Consequently, programs are often only partially funded initially, and additional funds are committed only as Congress makes further appropriations and prime contracts receive such funding. The reduction or delay in funding or termination of a government program in which we are involved could result in a loss of or delay in receiving anticipated future revenues attributable to that program and contracts or orders received. The U.S. government could reduce or terminate a prime contract under which we are a subcontractor or team member irrespective of the quality of our products or services. The termination of a program or the reduction in or failure to commit additional funds to a program in which we are involved could negatively impact our revenues and have a material adverse effect on our financial condition and results of operations. The U.S. defense budget frequently operates under a continuing budget resolution, which increases revenue uncertainty and volatility. For fiscal 2024 and beyond, the potential for gridlock in Congress, a continuing budget resolution, budget sequestration, a U.S. government shutdown, or the crowding out of defense funding due to historically high budget deficits or changes in national spending priorities toward non-defense budget items could adversely impact our revenues and increase uncertainty in our business and financial planning.

**Economic conditions could adversely affect our business, results of operations, and financial condition.**

World economic conditions and financial markets have, at times, experienced turmoil which could have material adverse impacts on our financial condition or our ability to achieve targeted results of operations due to:

- reduced and delayed demand for our products;
- increased risk of order cancellations or delays;
- downward pressure on the prices of our products;
- greater difficulty in collecting accounts receivable; and
- risks to our liquidity, including the possibility that we might not have access to our cash and short-term investments or to our line of credit when needed.

Further, the funding of the defense programs that incorporate our products and services is subject to the overall U.S. government budget and appropriation decisions and processes, which are driven by numerous factors beyond our control, including geo-political, macroeconomic, public health and political conditions. We are unable to predict the likely duration and severity of adverse economic conditions in the United States and other countries, but the longer the duration or the greater the severity, the greater the risks we face in operating our business. The near-term potential for recessionary economic conditions and possible stagflation (persistent high inflation and stagnant economic demand) presents increased risks to our business.

**Price inflation for labor and materials, further exacerbated in energy and commodity markets by the Russian invasion of Ukraine, could adversely affect our business, results of operations and financial condition.**

We have experienced considerable price inflation in our costs for labor and materials during recent years, which adversely affected our business, results of operations and financial condition. We may not be able to pass through inflationary cost increases under our existing firm fixed price commercial item contracts and we may only be able to recoup a portion of our increased costs under our reimbursement-type contracts. Our ability to raise prices to reflect increased costs may be limited by competitive conditions in the market for our products and services. Russia's invasion of Ukraine, and prolonged conflict there, may continue to result in increased inflation, escalating energy and commodity prices and increasing costs of materials. We continue to work to mitigate such pressures on our business operations as they develop. To the extent the war in Ukraine continues to adversely affect our business as discussed above, it may also have the effect of heightening many of the other risks described herein, such as those relating to cyber security, supply chain, volatility in prices and market conditions, any of which could negatively affect our business and financial condition.

**The loss of one or more of our largest customers, programs, or applications could adversely affect our results of operations.**

We are dependent on a small number of customers for a large portion of our revenues. A significant decrease in the sales to or loss of any of our major customers would have a material adverse effect on our business and results of operations. In fiscal 2023, RTX Corporation accounted for 14% of our total net revenues, Lockheed Martin Corporation accounted for 13% of our total net revenues, and Northrop Grumman accounted for 11% of our total net revenues. In fiscal 2022, RTX Corporation accounted for 14% of our total net revenues, the U.S. Navy accounted for 14% of our total net revenues and Lockheed Martin Corporation accounted for 10% of our total net revenues. In fiscal 2021, RTX Corporation accounted for 19% of our total net revenues, Lockheed Martin Corporation accounted for 15% of our total net revenues and the U.S. Navy accounted for 12% of our total net revenues. Customers in the defense market generally purchase our products in connection with government programs that have a limited duration, leading to fluctuating sales to any particular customer in this market from year to year. In addition, our revenues are largely dependent upon the ability of customers to develop and sell products that incorporate our products. No assurance can be given that our customers will not experience financial, technical or other difficulties that could adversely affect their operations and, in turn, our results of operations. Additionally, on a limited number of programs the customer has co-manufacturing rights which could lead to a shift of production on such a program away from us which in turn could lead to lower revenues.

Going forward, we believe the F-35, Filthy Buzzard & Badger, F/A-18, LTAMDS, THAAD and Aegis programs could be a large portion of our future revenues in the coming years, and the loss or cancellation of these programs could adversely affect our future results. Further, new programs may yield lower margins than legacy programs, which could result in an overall reduction in gross margins.

**If we are unable to respond adequately to our competition or to changing technology, we may lose existing customers and fail to win future business opportunities. The emergence of commodity-type products as acceptable substitutes for certain of our products may cause customers to delay purchases or seek alternative solutions.**

The markets for our products are highly competitive and are characterized by rapidly changing technology, frequent product performance improvements, and evolving industry standards. Competitors may be able to offer more attractive pricing, develop products with performance features that are superior to our products, or offer higher quality or superior on time delivery, resulting in reduced demand for our products. Recently, our on-time delivery has suffered due in part to supply chain volatility and unanticipated supplier decommits. We may be unable to keep pace with competitors' marketing and the lack of visibility in the marketplace may negatively impact design wins, bookings, and revenues. Customers may also decide to reduce costs and accept the least costly technically acceptable alternative to our products or services. In addition, customers may decide to insource products that they have outsourced to us. Due to the rapidly changing nature of technology, we may not become aware in advance of the emergence of new competitors into our markets. The emergence of new competitors in our markets could result in the loss of existing customers or programs and may have a negative impact on our ability to win future business. Perceptions of Mercury as a high-cost provider or for late deliveries could cause us to lose existing customers or programs or fail to win new business. Further, our lack of strong engagements with important government-funded laboratories (e.g. DARPA, MIT Lincoln Labs, MITRE) may inhibit our ability to become subsystem solution design partners with our defense prime customers.

Our products are often designed for operating under physical constraints such as limited space, weight, and electrical power. Furthermore, these products are often designed to be “rugged,” that is, to withstand enhanced environmental stress such as extended temperature range, shock, vibration, and exposure to sand or salt spray. Historically these requirements have often precluded the use of less expensive, readily available commodity-type systems typically found in more benign non-military settings. With continued microprocessor evolution, low-end systems could become adequate to meet the requirements of an increased number of the lesser-demanding applications within our target markets. Commercial server manufacturers and other low-end single-board computer, or new competitors, may attempt to penetrate the high-performance market for aerospace and defense electronics systems. Factors that may increase the acceptability of commodity-type products in some aerospace and defense platforms include improvements in the physical properties and durability of such alternative products, combined with the relaxation of physical and ruggedness requirements by the military due to either a reevaluation of those requirements or the installation of products in a more highly environmentally isolated setting. These developments could negatively impact our revenues and have a material adverse effect on our business and operating results.

**Competition from existing or new companies could cause us to experience downward pressure on prices, fewer customer orders, reduced margins, the inability to take advantage of new business opportunities and the loss of market share.**

We compete in highly competitive industries, and our customers generally extend the competitive pressures they face throughout their respective supply chains. Additionally, our markets are facing increasing industry consolidation, resulting in larger competitors who have more market share putting more downward pressure on prices and offering a more robust portfolio of products and services. We are subject to competition based upon product design, performance, pricing, quality, on time delivery, and support services. Our product performance, engineering expertise, and product quality have been important factors in our growth. While we try to maintain competitive pricing on those products that are directly comparable to products manufactured by others, in many instances our products will conform to more exacting specifications and carry a higher price than analogous products. Many of our customers and potential customers have the capacity to design and internally manufacture products that are similar to our products. We face competition from research and product development groups and the manufacturing operations of current and potential customers, who continually evaluate the benefits of internal research, product development, and manufacturing versus outsourcing. Our defense prime contractor customers could decide to pursue one or more of our product development areas as a core competency and insource that technology development and production rather than purchase that capability from us as a supplier. This competition could result in fewer customer orders and a loss of market share.

**We may be unable to obtain critical components from suppliers, which could disrupt or delay our ability to deliver products to our customers.**

Several components used in our products are currently obtained from sole-source suppliers. We are dependent on key vendors such as Xilinx, Inc., Intel Corporation and Microsemi for Field Programmable Gate Arrays (“FPGA”), on NXP Semiconductor for Application-Specific Integrated Circuits (“ASICs”), Intel Corporation and NXP Semiconductor for processors, Micron Technology, Inc. for specific memory products and in general any sole-source microelectronics suppliers. Generally, suppliers may terminate their contracts with us without cause upon 30 days’ notice and may cease offering their products upon 180 days’ notice. If any of our sole-source suppliers limits or reduces the sale of these components, we may be unable to fulfill customer orders in a timely manner or at all. These sole-source and other suppliers are each subject to quality and performance issues, materials shortages, excess demand, reduction in capacity, and other factors that may disrupt the flow of goods to us or to our customers, which would adversely affect our business and customer relationships. There can be no assurance that these suppliers will continue to meet our requirements. If supply arrangements are interrupted, we may not be able to find another supplier on a timely or satisfactory basis. We may incur significant set-up costs and delays in manufacturing should it become necessary to replace any key vendors due to work stoppages, shipping delays, financial difficulties, natural or manmade disasters or other factors. In addition, our industry, along with many others, is continuing to face a shortage of semiconductors as well as extended lead times. We have experienced and are experiencing meaningful levels of semiconductor impact. The continuing shortage of semiconductors and other key components can cause a significant disruption to our production schedule. Unprecedented material lead times and supplier decommits have increased volatility in our operating and financial results, including lower revenue and higher inventory and unbilled receivables, as well as decreased cash flow. Carrying increased levels of inventory also increases our potential risk of future inventory obsolescence.

**We may not be able to effectively manage our relationships with contract manufacturers.**

We may not be able to effectively manage our relationship with contract manufacturers, and the contract manufacturers may not meet future requirements for timely delivery. We rely on contract manufacturers to build hardware sub-assemblies for certain of our products in accordance with our specifications. During the normal course of business, we may provide demand forecasts to contract manufacturers several months prior to scheduled delivery of our products to customers. If we overestimate requirements, the contract manufacturers may assess cancellation penalties or we may be left with excess inventory, which may negatively impact our earnings. If we underestimate requirements, the contract manufacturers may have inadequate inventory, which could interrupt manufacturing of our products and result in delays in shipment to customers and revenue recognition. Contract manufacturers also build products for other companies, and they may not have sufficient quantities of inventory available or sufficient internal resources to fill our orders on a timely basis or at all.

We currently rely primarily on two contract manufacturers, Benchmark Electronics, Inc. and Omega Electronics Manufacturing Services. The failure of these contract manufacturers to fill our orders on a timely basis or in accordance with our customers' specifications could result in a loss of revenues and damage to our reputation.

**We are exposed to risks associated with international operations and markets.**

We market and sell products in international markets and have sales offices and manufacturing and/or engineering facilities and subsidiaries in Switzerland, Spain, the United Kingdom and Canada. Revenues from international operations accounted for 5%, 4% and 5%, of our total net revenues in fiscal 2023, 2022 and 2021, respectively. We also ship directly from our U.S. operations to international customers. There are inherent risks in transacting business internationally, including:

- changes in applicable laws and regulatory requirements;
- export and import restrictions, including export controls relating to technology and sanctioned parties;
- tariffs and other trade barriers;
- less favorable intellectual property laws;
- difficulties in staffing and managing foreign operations;
- longer payment cycles;
- problems in collecting accounts receivable;
- adverse economic conditions in foreign markets;
- political instability;
- fluctuations in currency exchange rates, which may lead to lower operating margins, or may cause us to raise prices which could result in reduced revenues;
- expatriation controls; and
- potential adverse tax consequences.

There can be no assurance that one or more of these factors will not have a material adverse effect on our future international activities and, consequently, on our business and results of operations.

We have a pension plan (the "Plan") for Swiss employees, mandated by Swiss law. Since participants of the Plan are entitled to a defined rate of interest on contributions made, the Plan meets the criteria for a defined benefit plan under U.S. GAAP. The Plan, an independent pension fund, is part of a multi-employer plan with unrestricted joint liability for all participating companies and the economic interest in the Plan's overfunding or underfunding is allocated to each participating company based on an allocation key determined by the Plan. U.S. GAAP requires an employer to recognize the funded status of the defined benefit plan on the balance sheet, which we have presented in other long-term liabilities on our Consolidated Balance Sheets at June 30, 2023. 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 in the Plan and we may have to record an increased liability as a result of fluctuations in the value of the Plan's assets. As of June 30, 2023, we had a liability of \$4.2 million in Other non-current liabilities representing the net under-funded status of the Plan.

In addition, we must comply with the Foreign Corrupt Practices Act, or the FCPA, and the anti-corruption laws of the countries in which we operate. Those laws generally prohibit the giving of anything of value to win business. The FCPA also generally requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the company and prohibits U.S. companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. Under these anti-corruption laws, U.S. companies may be held liable for actions taken by strategic or local partners or representatives. If we or our intermediaries fail to comply with the requirements of international applicable anti-corruption laws, governmental

authorities in the United States or the countries in which we operate could seek to impose civil and criminal penalties, or restrict or limit our ability to do business, which could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

**If we are unable to respond to technological developments and changing customer needs on a timely and cost-effective basis, our results of operations may be adversely affected.**

Our future success will depend in part on our ability to enhance current products and to develop new products on a timely and cost-effective basis to respond to technological developments and changing customer needs. Defense customers demand frequent technological improvements as a means of gaining military advantage. Military planners have historically funded significantly more design projects than actual deployments of new equipment, and those systems that are deployed tend to contain the components of the subcontractors selected to participate in the design process. To participate in the design of new defense electronics systems, we must demonstrate the ability to deliver superior technological performance on a timely and cost-effective basis. There can be no assurance that we will secure an adequate number of design wins in the future, that the equipment in which our products are intended to function will eventually be deployed in the field, or that our products will be included in such equipment if it eventually is deployed.

The design-in process is typically lengthy and expensive, and there can be no assurance that we will be able to continue to meet the product specifications of customers in a timely and adequate manner. In addition, any failure to anticipate or respond adequately to changes in technology, customer preferences and future order demands, or any significant delay in product developments, product introductions, or order volume, could negatively impact our financial condition and results of operations, including the risk of inventory obsolescence. Because of the complexity of our products, we have experienced delays from time to time in completing products on a timely basis.

**Our need for continued or increased investment in R&D may increase expenses and reduce our profitability.**

Our business is characterized by the need for continued investment in R&D. If we fail to invest sufficiently in R&D, our products could become less attractive to potential customers and our business and financial condition could be materially and adversely affected. As a result of the need to maintain spending levels in this area and the difficulty in reducing costs associated with R&D, our operating results could be materially harmed if our R&D efforts fail to result in new products or if revenues fall below expectations. As a result of our commitment to invest in R&D, spending levels of R&D expenses as a percentage of revenues may fluctuate in the future. In addition, defense prime contractors could increase their requirement for subcontractors, like us, to increase their share in the R&D costs for new programs and design wins.

**Our results of operations are subject to fluctuation from period to period and may not be an accurate indication of future performance.**

While our revenues are generated through the sale of products and services across more than 300 programs with no single program contributing more than 10% of our annual revenues, we have experienced fluctuations in operating results due to shifts in timing or quantities across certain of our larger programs. Customers specify delivery date requirements that coincide with their need for our products and services on the programs in which we participate. Because these customers may use our products and services in connection with a variety of defense programs or other projects with different sizes and durations, a customer's orders for one quarter generally do not indicate a trend for future orders by that customer or on that program. As such, we cannot always accurately plan our manufacturing, inventory and working capital requirements. As a result, if orders and shipments differ from what we predict, we may incur additional expenses and build excess inventory, which may require additional reserves and allowances and reduce our working capital and operational flexibility. Any significant change in our customers' purchasing patterns could have a material adverse effect on our operating results and reported earnings per share for a particular quarter. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

High quarterly book-ship ratios pressure our inventory and cash flow management, necessitating increased inventory balances to ensure quarterly revenue attainment. Increased inventory balances tie up additional capital, limiting our operational flexibility. Some of our customers may have become conditioned to wait until the end of a quarter to place orders in the expectation of receiving a discount. Customers conditioned to seek quarter-end discounts increase risk and uncertainty in our financial forecasting and decrease our margins and profitability.

Our quarterly results may be subject to fluctuations resulting from other factors, including:

- delays in completion of internal product development projects;
- delays in shipping hardware and software or licensing design intellectual property;
- delays in acceptance testing by customers;
- a change in the mix of products sold;



- changes in customer or program order patterns;
- production delays due to quality problems;
- failure to achieve or maintain quality certifications, such as AS9100;
- inability to scale quick reaction capability products due to low product volume;
- shortages and increased costs of components;
- delays due to the implementation of new tariffs or other trade barriers;
- the timing of product line transitions;
- declines in quarterly revenues from previous generations of products following announcement of replacement products containing more advanced technology; and
- changes in estimates of completion on fixed price engagements, which represent a substantial and increasing percentage of our business.

In addition, from time to time, we have entered into contracts, referred to as development contracts, to engineer a specific solution based on modifications to standard products. Gross margins from development contract revenues are typically lower than gross margins from standard product revenues. We intend to continue to enter into development contracts and anticipate that the gross margins associated with development contract revenues will continue to be lower than gross margins from standard product sales.

Many of our contracts require that our facilities remain certified at the AS91000 or ISO9001 level in order to ship products from the relevant facility. Failure to obtain or maintain the required certification may require a waiver by the customer for shipments to continue until the certification is obtained. There can be no assurance that we will receive any customer waivers if a required certification is lost or delayed.

Another factor contributing to fluctuations in our quarterly results is the fixed nature of expenditures on personnel, facilities, information technology and marketing programs. Expense levels for these programs are based, in significant part, on expectations of future revenues. If actual quarterly revenues are below management's expectations, our results of operations could be adversely affected.

Further, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us 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. The percentage of our total revenue using over time revenue accounting has increased in recent years due to M&A transactions and the movement in our business toward subsystem development. Over time revenue recognition is more reliant on estimates than the accounting for our component sales. Actual results could differ from those estimates, and changes in estimates in subsequent periods could cause our results of operations to fluctuate.

**We rely on the significant experience and specialized expertise of our senior management, engineering and operational staff and must retain and attract qualified and highly skilled personnel to grow our business successfully.**

Our performance is substantially dependent on the continued services and performance of our senior management and our highly qualified team of engineers and operational staff, many of whom have numerous years of experience, specialized expertise in our industry and security clearances required for certain defense projects. If we are not successful in hiring and retaining such employees, we may not be able to extend or maintain our engineering and operational expertise and our future product development efforts could be adversely affected. Competition for hiring these employees is intense, especially individuals with specialized skills and security clearances required for our business, and we may be unable to hire and retain enough staff to implement our growth strategy or to perform on our existing commitments. Like our defense prime contractor customers, we face the potential for knowledge drain due to the continuing retirement of the older members of our engineering and operations workforce in the coming years.

To the extent that we lose experienced personnel, it is critical that we develop other employees, hire new qualified personnel and successfully manage the short and long-term transfer of critical knowledge and skills. We compete with commercial technology companies outside of the aerospace and defense industry for qualified technical positions as the number of qualified domestic engineers is decreasing and the number of available professionals is not keeping up with demand. To the extent that these companies grow at a faster rate or face fewer cost and product pricing constraints, they may be able to offer more attractive compensation and other benefits to candidates, including in the recruitment of our existing employees. In cases where the demand for skilled personnel exceeds supply, we could experience higher labor, recruiting or training costs to attract and retain such employees. We also must manage leadership development and succession planning throughout our business. While we have processes in place for management transition and the transfer of knowledge and skills, the loss of key personnel,

coupled with an inability to adequately train other personnel, hire new personnel, or transfer knowledge and skills, could significantly impact our ability to perform under our contracts and execute on new or growing programs.

Beginning with the pandemic, a significant portion of our workforce began working remotely and we expect a significant portion will continue to work a hybrid schedule even as we transition more employees back to onsite work over time. We see many benefits to remote and hybrid work and have adopted new tools and processes to support the workforce. However, if we are unable to effectively adapt to this hybrid work environment long term, then we may experience a less cohesive workforce, increased attrition, reduced program performance and less innovation. In recent years, we have experienced unusually high employee attrition and our costs to retain employees increased.

Our challenges in retaining key employees may be impacted by the termination of the Company's announced strategic review initiative in June 2023 and any unanticipated challenges with the transition of the Company's Chief Executive Officer and Chief Financial Officer roles, as we have recently appointed a new President and Chief Executive Officer and our new Chief Financial Officer joined us in mid July 2023. The decline in our stock price during 2023 may also increase employee retention risks.

**If we experience a disaster or other business continuity problem, we may not be able to recover successfully, which could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.**

If we experience a local or regional disaster or other business continuity problem, such as an earthquake, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our facilities and the proper functioning of our network, telecommunication and other business systems and operations. As we grow our operations, the potential for natural or man-made disasters, political, economic, or infrastructure instabilities, or other country- or region-specific business continuity risks increases.

**We face various risks related to health pandemics such as COVID.**

We face secondary and tertiary effects related to the pandemic, including disruptions in our supply chain, particularly for long lead time semiconductors. We continue to monitor the situation, assessing possible implications on our operations, supply chain, liquidity and cash flow and will continue taking actions to mitigate adverse consequences.

**Risks Related to M&A and Acquisition Integration**

**Implementation of our growth strategy may not be successful, which could affect our ability to increase revenues and profits.**

Our growth strategy includes developing new products, adding new customers and programs within our existing markets, and entering new markets both domestically and internationally, developing our manufacturing capabilities, as well as identifying and integrating acquisitions and achieving revenue and cost synergies and economies of scale. Our ability to compete in new markets will depend upon several factors including, among others:

- our ability to create demand for products in new markets;
- our ability to respond to changes in our customers' businesses by updating existing products and introducing, in a timely fashion, new products which meet the needs of our customers;
- our ability to increase our market visibility and penetration with prime defense contractors, government agencies and government funded laboratories;
- the quality of our new products;
- our ability to respond rapidly to technological changes;
- our ability to increase our in-house manufacturing capacity and utilization as well as our ability to deliver on schedule and on budget; and
- our ability to successfully integrate acquisitions and achieve revenue and cost synergies and economies of scale.

The failure to do any of the foregoing could have a material adverse effect on our business, financial condition, and results of operations. In addition, we may face competition in these new markets from various companies that may have substantially greater research and development resources, marketing and financial resources, manufacturing capability and/or customer support organizations.

**Acquisitions may adversely affect our financial condition.**

As part of our strategy for growth, we may explore acquisitions or strategic alliances, which ultimately may not be completed or be beneficial to us. While we expect any acquisitions to result in synergies and other financial and operational

benefits, we may be unable to realize these synergies or other benefits in the timeframe that we expect or at all. The integration process may be complex, costly and time consuming. Acquisitions may pose risks to our business, including:

- problems and increased costs in connection with the integration of the personnel, operations, technologies, or products of the acquired businesses;
- layering of integration activity due to multiple overlapping acquisitions;
- unanticipated issues, expenses, charges, or liabilities related to the acquisitions;
- failure to implement our business plan for the combined business or to achieve anticipated increases in revenues and profitability;
- diversion of management's attention from our organic business;
- adverse effects on business relationships with suppliers and customers, including the failure to retain key customers;
- acquired assets becoming impaired as a result of technical advancements or worse-than-expected performance by the acquired company;
- failure to rationalize supply chain, manufacturing capacity, locations, logistics and operating models to achieve anticipated economies of scale, or disruptions to supply chain, manufacturing, or product design operations during the combination of facilities;
- failure to rationalize business, information and communication systems and to expand the IT infrastructure and security protocols throughout the enterprise;
- volatility associated with accounting for earn-outs in a given transaction;
- entering markets in which we have no, or limited, prior experience;
- environmental liabilities at current or previous sites of the acquired business;
- poor compliance programs pre-acquisition at acquired companies, which may lead to liabilities for violations, or impact the business acquired when placed under our compliance programs;
- unanticipated changes in applicable laws or regulations;
- potential loss of key employees;
- the impact of any assumed legal proceedings; and
- adverse effects on our internal control over financial reporting before the acquiree's complete integration into our control environment.

In addition, in connection with any acquisitions or investments we could:

- issue stock that would dilute our existing shareholders;
- incur debt and assume liabilities;
- obtain financing on unfavorable terms, or not be able to obtain financing on any terms at all;
- incur amortization expenses related to acquired intangible assets or incur large and immediate write-offs;
- incur large expenditures related to office closures of the acquired companies, including costs relating to the termination of employees and facility and leasehold improvement charges resulting from our having to vacate the acquired companies' premises; and
- reduce the cash that would otherwise be available to fund operations or for other purposes.

We may not be able to maintain the levels of revenue, earnings, or operating efficiency that we and our prior acquisitions had achieved or might achieve separately. You should not place undue reliance on any anticipated synergies. In addition, our competitors could try to emulate our strategy, leading to greater competition for acquisition targets which could lead to larger competitors if they succeed in emulating our strategy.

### **We may incur substantial indebtedness.**

On February 28, 2022, we amended our existing revolving credit facility (“the Revolver”) to increase and extend the borrowing capacity to a \$1.1 billion, 5-year revolving credit line, with the maturity extended to February 28, 2027. As of June 30, 2023, we had \$511.5 million of outstanding borrowings on the Revolver. The Revolver accrues interest, at our option, at floating rates tied to Secured Overnight Financing Rate (“SOFR”) or the prime rate plus an applicable percentage. The applicable percentage is set at SOFR plus 1.25% and is established pursuant to a pricing grid based on our total net leverage ratio. We may be exposed to the impact of interest rate changes primarily through our borrowing activities. Subject to the limits contained in the Revolver, we may incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our debt could intensify. Specifically, our debt could have important consequences to our investors, including the following:

- making it more difficult for us to satisfy our obligations under our debt instruments, including, without limitation, the Revolver; and if we fail to comply with these requirements, an event of default could result;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions, or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings may have variable interest rates, which could increase the cost of servicing our financial instruments and could materially reduce our profitability and cash flows;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

In addition, the Revolver contains restrictive covenants that may limit our ability to engage in activities that are in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debt. And, if we were unable to repay the amounts due and payable, the lenders under the Revolver could proceed against the collateral granted to them to secure that indebtedness.

Increases in interest rates would increase the cost of servicing our financial instruments with exposure to interest rate risk and could materially reduce our profitability and cash flows. Assuming that we had \$100.0 million of floating rate debt outstanding, our annual interest expense would change by approximately \$1.0 million for each 100 basis point increase in interest rates. We may also incur costs related to interest rate hedges, including the termination of any such hedges. As of June 30, 2023, we had a swap agreement in effect that fixed \$300.0 million of the total \$511.5 million of outstanding borrowings under the Revolver at a rate of 3.79%. The movement of interest rates would affect the value of such swap agreement.

Our recent negative free cash flow, if not improved, could eventually lead to challenges in servicing our debt.

### **We have a significant amount of goodwill and intangible assets on our consolidated financial statements that are subject to impairment based upon future adverse changes in our business or prospects.**

At June 30, 2023, the carrying values of goodwill and identifiable intangible assets on our balance sheet were \$938.1 million and \$298.1 million, respectively. We evaluate indefinite lived intangible assets and goodwill for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Indefinite lived intangible assets are impaired and goodwill impairment is indicated when their book value exceeds fair value. We also review finite-lived intangible assets and long-lived assets when indications of potential impairment exist, such as a significant reduction in undiscounted cash flows associated with the assets. Should the fair value of our long-lived assets decline because of reduced operating performance, market declines, or other indicators of impairment, a charge to operations for impairment may be necessary. The value of goodwill and intangible assets from the allocation of purchase price from our acquisitions will be derived from our business operating plans and is susceptible to an adverse change in demand, input costs or general changes in our business or industry and could require an impairment charge in the future.

### **Risks Related to Legal, Regulatory and Compliance Matters**

#### **We face risks and uncertainties associated with defense-related contracts**

Whether our contracts are directly with the U.S. government, a foreign government, or one of their respective agencies, or indirectly as a subcontractor or team member, our contracts and subcontracts are subject to special risks. For example:

- Our contracts with the U.S. and foreign governments and their defense prime contractors and subcontractors are subject to termination either upon default by us or at the convenience of the government or contractor if, among other reasons, the program itself has been terminated. Termination for convenience provisions generally only entitle us to recover costs incurred, settlement expenses and profit on work completed prior to termination.
- Because we contract to supply goods and services to the U.S. and foreign governments and their prime and subcontractors, we compete for contracts in a competitive bidding process. We may not be awarded the contract if the pricing or product offering is not competitive, either at our level or the prime or subcontractor level. In the event we are awarded a contract, we are subject to protests by losing bidders of contract awards that can result in the reopening of the bidding process and changes in governmental policies or regulations and other political factors. We may be subject to multiple rebid requirements over the life of a defense program to continue to participate in such program, which can result in the loss of the program or significantly reduce our revenue or margin. Requirements for more frequent technology refreshes on defense programs may lead to increased costs and lower long-term revenues.
- Consolidation among defense industry contractors has resulted in a few large contractors with increased bargaining power relative to us.
- Our customers include U.S. government contractors who must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. government contracts. When we contract with the U.S. government, we must comply with these laws and regulations. A violation of these laws and regulations could result in the imposition of fines and penalties to us or our customers or the termination of our or their contracts with the U.S. government. As a result, there could be a delay in our receipt of orders from our customers, a termination of such orders, or a termination of contracts between us and the U.S. government.
- We sell certain products and services to U.S. and international defense contractors or directly to the U.S. government on a commercial item basis, eliminating the requirement to disclose and certify cost data. To the extent that there are interpretations or changes in the Federal Acquisition Regulations (“FAR”) regarding the qualifications necessary to sell commercial items, there could be a material impact on our business and operating results. For example, there have been legislative proposals to narrow the definition of a “commercial item” (as defined in the FAR) or to require cost and pricing data on commercial items that could limit or adversely impact our ability to contract under commercial item terms. Changes could be accelerated due to changes in our mix of business, in federal regulations, or in the interpretation of federal regulations, which may subject us to increased oversight by the Defense Contract Audit Agency (“DCAA”) for certain of our products or services. Such changes could also trigger contract coverage for a larger percentage of our contracts under the Cost Accounting Standards (“CAS”), further impacting our commercial operating model and requiring compliance with a defined set of business systems criteria. Failure to comply with applicable CAS requirements could adversely impact our ability to win future CAS-type contracts.
- We are subject to the Department of Defense Cybersecurity Maturity Model Certification (“CMMC”) in connection with our defense work for the U.S. government and defense prime contractors. Inability to meet the qualifications to the CMMC and any amendments may increase our costs or delay the award of contracts if we are unable to certify that we satisfy such cybersecurity requirements at our Company level and into our supply chain.
- The U.S. government or a defense prime contractor customer could require us to relinquish data rights to a product in connection with performing work on a defense contract, which could lead to a loss of valuable technology and intellectual property in order to participate in a government program.
- The U.S. government or a defense prime contractor customer could require us to enter into cost reimbursable contracts that could offset our cost efficiency initiatives.
- We anticipate that sales to our U.S. prime defense contractor customers as part of foreign military sales (“FMS”) programs will be an increasing part of our business going forward. These FMS sales combine several different types of risks and uncertainties highlighted above, including risks related to government contracts, risks related to defense contracts, timing and budgeting of foreign governments and approval from the U.S. and foreign governments related to the programs, all of which may be impacted by macroeconomic and geopolitical factors outside of our control.
- We must comply with security requirements pursuant to 32 CFR Part 117, formerly known as the National Industrial Security Program Operating Manual, or NISPOM, and other U.S. government security protocols when accessing sensitive information. Many of our facilities maintain a facility security clearance and many of our employees maintain a personal security clearance to access sensitive information necessary to the performance of our work on certain U.S. government contracts and subcontracts. Failure to comply with such security requirements may subject us to civil or criminal penalties, loss of access to sensitive information, loss of a U.S. government contract or subcontract, or potentially debarment as a government contractor.
- We may need to invest additional capital to build out higher level security infrastructure at certain of our facilities to capture new design wins on defense programs with higher level security requirements. In addition, we may need to invest in additional secure laboratory space to integrate efficiently subsystem level solutions and maintain quality assurance on current and future programs.

**If we are unable to continue to obtain U.S. government authorization regarding the export of our products, or if current or future export laws limit or otherwise restrict our business, we could be prohibited from shipping our products to certain countries, which would harm our ability to generate revenue.**

We must comply with U.S. laws regulating the export of our products and technology. In addition, we are required to obtain a license from the U.S. government to export certain of our products and technical data as well as to provide technical services to foreign persons related to such products and technical data. We cannot be sure of our ability to obtain any licenses required to export our products or to receive authorization from the U.S. government for international sales or domestic sales to foreign persons including transfers of technical data or the provision of technical services. Likewise, our international operations are subject to the export laws of the countries in which they conduct business. Moreover, the export regimes and the governing policies applicable to our business are subject to change. If we cannot obtain required government approvals under applicable regulations in a timely manner or at all, we could be delayed or prevented from selling our products in certain jurisdictions, which could adversely affect our business and financial results.

**Our income tax provision and other tax liabilities may be insufficient if taxing authorities are successful in asserting tax positions that are contrary to our position. Increases in tax rates could impact our financial performance.**

From time to time, we are audited by various federal, state, local and foreign authorities regarding income tax matters. Significant judgment is required to determine our provision for income taxes and our liabilities for other taxes. Although we believe our approach to determining the appropriate tax treatment is supportable and in accordance with relevant authoritative guidance it is possible that the final tax authority will take a tax position that is materially different than that which is reflected in our income tax provision. Such differences could have an adverse effect on our income tax provision or benefit, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period. Further, future increases in tax rates may adversely affect our financial results.

**Our products are complex, and undetected defects may increase our costs, harm our reputation with customers or lead to costly litigation.**

Our products are extremely complex and must operate successfully with complex products of our customers and their other vendors. Our products may contain undetected errors when first introduced or as we introduce product upgrades. The pressures we face to be the first to market new products or functionality and the elapsed time before our products are integrated into our customer's systems increases the possibility that we will offer products in which we or our customers later discover problems. We have experienced new product and product upgrade errors in the past and expect similar problems in the future. These problems may cause us to incur significant warranty costs and costs to support our service contracts and divert the attention of personnel from our product development efforts. Also, hostile third parties or nation states may try to install malicious code or devices into our products or software. Undetected errors may adversely affect our product's ease of use and may create customer satisfaction issues. If we are unable to repair these problems in a timely manner, we may experience a loss of or delay in revenue and significant damage to our reputation and business prospects. Many of our customers rely upon our products for mission-critical applications. Because of this reliance, errors, defects, or other performance problems in our products could result in significant financial and other damage to our customers. Our customers could attempt to recover those losses by pursuing products liability claims against us which, even if unsuccessful, would likely be time-consuming and costly to defend and could adversely affect our reputation.

## **Risks Related to Information Technology and Intellectual Property**

**We may need to invest in new information technology systems and infrastructure to scale our operations.**

We may need to adopt new information technology systems and infrastructure to scale our business and obtain the synergies from prior acquisitions as well as organic growth. Our information technology and business systems and infrastructure could create product development or production work stoppages, unnecessarily increase our inventory, negatively impact product delivery times and quality and increase our compliance costs. In addition, an inability to maximize the utility and benefit of our current information technology and business tools could impact our ability to meet cost reduction and planned efficiency and operational improvement goals.

**If we suffer ransomware breaches, data breaches, or phishing diversions involving the designs, schematics, or source code for our products or other sensitive information, our business and financial results could be adversely affected.**

Our business is subject to heightened risks of cyber intrusion as nation-state hackers seek access to technology used in U.S. defense programs and criminal enterprise hackers, which may or may not be affiliated with foreign governments, use ransomware attacks to disable critical infrastructure and extort companies for ransom payments. We are also targeted by spear phishing attacks in which an email directed at a specific individual or department is disguised to appear to be from a trusted source to obtain sensitive information. Like all DoD contractors that process, store, or transmit controlled unclassified



information, we must meet minimum security standards or risk losing our DoD contracts. A breach, whether physical, electronic or otherwise, of the systems on which this sensitive data is stored could lead to damage or piracy of our products or to the shutdown of business systems. If we experience a data security breach from an external source or a data exfiltration from an insider threat, we may have a loss in sales or increased costs arising from the restoration or implementation of additional security measures, either of which could adversely affect our business and financial results. Other potential costs could include damage to our reputation, loss of brand value, incident response costs, loss of stock market value, regulatory inquiries, litigation and management distraction. A security breach that involves classified information could subject us to civil or criminal penalties, loss of a government contract, loss of access to classified information, or debarment as a government contractor. Similarly, a breach that involves loss of customer-provided data could subject us to loss of a customer, loss of a program or contract, litigation costs and legal damages and reputational harm.

**We may be unsuccessful in protecting our intellectual property rights which could result in the loss of a competitive advantage. If we become subject to intellectual property infringement claims, we could incur significant expenses and could be prevented from selling specific products.**

Our ability to compete effectively against other companies in our industry depends, in part, on our ability to protect our current and future proprietary technology under patent, copyright, trademark, trade secret and unfair competition laws. We cannot assure you that our means of protecting our proprietary rights in the United States or abroad will be adequate, or that others will not develop technologies similar or superior to our technology or design around our proprietary rights. In addition, we may incur substantial costs in attempting to protect our proprietary rights.

Also, despite the steps taken by us to protect our proprietary rights, it may be possible for unauthorized third parties to copy or reverse-engineer aspects of our products, develop similar technology independently, or otherwise obtain and use information from our supply chain that we regard as proprietary, and we may be unable to successfully identify or prosecute unauthorized uses of our technology. Further, with respect to our issued patents and patent applications, we cannot assure you that any patents from any pending patent applications (or from any future patent applications) will be issued, that the scope of any patent protection will exclude competitors or provide competitive advantages to us, that any of our patents will be held valid if subsequently challenged or that others will not claim rights in or ownership of the patents (and patent applications) and other proprietary rights held by us.

We may become subject to claims that we infringe the intellectual property rights of others. We cannot assure you that, if made, these claims will not be successful. Any claim of infringement could cause us to incur substantial costs defending against the claim even if the claim is invalid and could distract management from other business. Any judgment against us could require substantial payment in damages and could also include an injunction or other court order that could prevent us from offering certain products.

## **Risks Related to Our Common Stock**

**The trading price of our common stock may continue to be volatile, which may adversely affect our business, and investors in our common stock may experience substantial losses.**

Our stock price, like that of other technology and aerospace and defense companies, has been and may continue to be volatile. The stock prices for companies in the aerospace and defense industry may continue to remain volatile given uncertainty and timing of funding for defense programs. This volatility may or may not be related to our operating performance. Our operating results, from time to time, may be below the expectations of public market analysts and investors, which could have a material adverse effect on the market price of our common stock. Market rumors or the dissemination of false or misleading information may impact our stock price. When the market price of a stock has been volatile, holders of that stock will sometimes file securities class action litigation against the company that issued the stock. If any shareholders were to file a lawsuit, we could incur substantial costs defending the lawsuit, which could also divert the time and attention of management. During fiscal 2023, we experienced stock price declines following our earnings releases in August 2022 and May 2023 as well as after the announcement that the Board of Directors had concluded its review of strategic alternatives in June 2023, in each case with law firms announcing investigations after the event.

**We have never paid cash dividends on our common stock and we do not anticipate paying any dividends in the foreseeable future.**

We have not declared or paid cash dividends on any of our classes of capital stock to date and we currently intend to retain our future earnings, if any, to fund the development and growth of our business and for future mergers and acquisitions. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future.

**We may need additional capital and may not be able to raise funds on acceptable terms, if at all. In addition, any funding through the sale of additional common stock or other equity securities could result in additional dilution to our stockholders and any funding through indebtedness could restrict our operations.**

We may require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary principally depending on the timing of new product and service launches, investments and/or acquisitions and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a larger credit facility. The sale of additional equity securities or securities convertible into our common shares could result in additional dilution to our stockholders. The incurrence of additional indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell debt or additional equity securities or to reduce our growth to a level that can be supported by our cash flow.

**Provisions in our organizational documents and Massachusetts law and other actions we have taken could make it more difficult for a third party to acquire us.**

Provisions of our articles of organization and by-laws could have the effect of discouraging a third party from making a proposal to acquire us and could prevent certain changes in control, even if some shareholders might consider the proposal to be in their best interest. These provisions include a classified board of directors, advance notice to our board of directors of shareholder proposals and director nominations, and limitations on the ability of shareholders to remove directors and to call shareholder meetings. In addition, we may issue shares of any class or series of preferred stock in the future without shareholder approval upon such terms as our board of directors may determine. For example, on December 27, 2021, the Board of Directors adopted a Shareholder Rights Plan which, as amended, expired on the date of our annual meeting of shareholders in October 2022. The rights of holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any such class or series of preferred stock that may be issued.

We also are subject to the Massachusetts General Laws which, subject to certain exceptions, prohibit a Massachusetts corporation from engaging in a broad range of business combinations with any “interested shareholder” for a period of three years following the date that such shareholder becomes an interested shareholder. The Massachusetts Business Corporation Act permits directors to look beyond the interests of shareholders and consider other constituencies in discharging their duties. In determining what the director of a Massachusetts corporation reasonably believes to be in the best interests of the corporation, a director may consider the interests of the corporation’s employees, suppliers, creditors, and customers, the economy of the state, the region, and the nation, community and societal considerations and the long-term and short-term interests of the corporation and its shareholders, including the possibility that these interests may be best served by the continued independence of the corporation.

**Shareholder activism could cause us to incur significant expense, disrupt our business, result in a proxy contest or litigation and impact our stock price.**

We have been subject to shareholder activism and may be subject to such activism in the future, which could result in substantial costs and divert management’s and our Board’s attention and resources from our business. Such shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with our employees, customers, or suppliers and make it more difficult to attract and retain qualified personnel. We may be required to incur significant fees and other expenses related to activist shareholder matters, including for third party advisors. We may be subjected to a proxy contest or to litigation by activist investors. Our stock price has been and could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any shareholder activism.

JANA Partners LLC filed a Schedule 13D on December 23, 2021, and Starboard Value LP filed a Schedule 13D on January 13, 2022. Both JANA and Starboard indicated that they intended to engage with Mercury’s management. On June 23, 2022, we entered into settlement agreements with each of JANA and Starboard that covered the appointment of two directors to our Board and an amendment to our shareholder rights plan, which has since expired as of our 2022 annual meeting of shareholders. The JANA and Starboard settlement agreements contained customary standstill provisions that expired in June 2023. On June 15, 2023, Starboard filed an amended Schedule 13D indicating that it owned approximately 4.6% of our outstanding shares. On July 6, 2023, JANA filed a new Schedule 13D indicating that it owned approximately 8% of our outstanding shares, and we announced that Scott Ostfeld, a managing partner at JANA, was being appointed to our Board of Directors.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

The following table sets forth our significant properties as of June 30, 2023:

<u>Location</u>	<u>Size in Sq. Feet</u>	<u>Commitment</u>
Andover, MA	145,262	Leased, expiring 2032
Phoenix, AZ	125,756	Leased, expiring 2031
Hudson, NH	121,553	Leased, expiring 2030
Oxnard, CA	72,673	Leased, expiring 2025
Torrance, CA	58,405	Leased, expiring 2029
Gulf Breeze, FL	51,061	Leased, expiring 2031
Torrance, CA	49,250	Leased, expiring 2025
Cypress, CA	42,770	Leased, expiring 2028
Upper Saddle River, NJ	36,223	Leased, expiring 2027
Alpharetta, GA	35,005	Leased, expiring 2028
Chantilly, VA	32,789	Leased, expiring 2025
Torrance, CA	31,505	Leased, expiring 2023
Geneva, CH	27,287	Leased, expiring 2027

We actively manage our facilities and are in pursuit of lease extensions or alternative locations for facilities with expiration dates in the next one to two years. In addition, we lease a number of smaller offices around the world primarily for sales. See Note B and Note J to the consolidated financial statements for more information regarding our obligations under leases.

## ITEM 3. 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 ourselves 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.

On June 23, 2021, Embedded Reps of America, LLC (“ERA”), a former sales representative, and James Mazzola, a principal of ERA, filed for binding arbitration related to the termination of ERA’s sales representative agreement raising multiple claims that aggregate to approximately \$9 million in direct damages, with treble damages requested on a number of those claims. ERA was a sales representative of Themis when Themis was acquired by Mercury. The sales representative agreement provided for termination by either party upon 30 days written notice with ERA entitled to commissions for orders obtained by ERA with product shipment occurring prior to termination. We responded to the complaint in July 2021. An arbitration proceeding was held during September 2022, with final motions in October 2022, and oral arguments in November 2022. The arbitrator issued its final ruling in January 2023, awarding ERA less than \$0.1 million in damages and fees.

On December 7, 2021, counsel for National Technical Systems, Inc. (“NTS”) sent us an environmental demand letter pursuant to Massachusetts General Laws Chapter 21E, Section 4A, and CERCLA 42 U.S.C. Section 9601, related to a site that NTS formerly owned at 533 Main Street, Acton, MA. NTS received a Notice of Responsibility from the Massachusetts Department of Environmental Protection (“MassDEP”) alleging trichloroethene, freon and 1,4-dioxane contamination in the groundwater emanating from NTS’s former site. NTS alleges in its demand letter that the operations of a predecessor company to Mercury that was acquired in our acquisition of the Microsemi Carve-Out Business that once owned and operated a facility at 531 Main Street, Acton, Massachusetts contributed to the groundwater contamination. NTS is seeking payment from us of NTS’s costs for any required environmental remediation. In April 2022, we engaged in a meet and confer session with NTS pursuant to Massachusetts General Laws Chapter 21E, Section 4A to discuss the status of the environmental review performed by NTS and its licensed site professional. In addition, in November 2021, we responded to a request for information from MassDEP regarding the detection of PFAS (per- and polyfluoroalkyl substances) in the Acton, Massachusetts Water District’s Conant public water supply wells near the former facility at 531 Main Street, Acton, Massachusetts at a level above the

standard that MassDEP published for PFAS in October 2020. We have not been contacted by NTS or MassDEP since the dates discussed above. It is too early to determine what responsibility, if any, we may have for these environmental matters.

On June 19, 2023, our Board of Directors received notice of our former CEO's resignation from his positions of President and Chief Executive Officer. The Board accepted his resignation effective June 24, 2023. In his notice, the former CEO claimed he was entitled to certain benefits, including equity vesting, severance, and other benefits, under his change in control severance agreement (the "CIC Agreement") because he had resigned with good reason during a potential change in control period. We dispute these claims and maintain that he resigned without good reason. The parties must submit any dispute under the CIC Agreement to binding arbitration. We intend to contest vigorously any claims under the CIC Agreement and believe that we have strong arguments that our former CEO's claims lack merit. If the arbitrator rules in our favor, we may still need to pay the former CEO's reasonable legal fees. If instead the arbitrator rules for the former CEO, we could be liable for up to approximately \$12.9 million, based on the closing price of our common stock on June 26, 2023, plus legal fees and expenses, for accelerated equity vesting, severance, and other benefits under the CIC Agreement. We categorically deny any wrongdoing or liability under the CIC Agreement, but the outcome of potential arbitration is inherently uncertain. Accordingly, it is reasonably possible that we will incur a liability in this matter and we estimate the potential range of exposure from \$0 to \$12.9 million, plus costs and attorneys' fees.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

#### **ITEM 4.1. INFORMATION ABOUT OUR EXECUTIVE OFFICERS**

Our executive officers are appointed to office by the Board of Directors at the first board meeting following the Annual Meeting of Shareholders or at other board meetings as appropriate, and hold office until the first board meeting following the next Annual Meeting of Shareholders and until a successor is chosen, subject to prior death, resignation or removal. Information regarding our executive officers as of the date of filing of this Annual Report on Form 10-K is presented below.

*William L. Ballhaus*, age 56, joined the Company's Board of Directors as a non-employee director in June 2022, was appointed interim President and Chief Executive Officer on June 24, 2023, and was appointed President and CEO effective August 15, 2023. As previously announced, Mr. Ballhaus will become the Company's Chairman of the Board effective with the 2023 annual meeting of shareholders. Mr. Ballhaus has significant experience in the aerospace, defense, and technology industries, including multiple CEO roles, as well as experience in operational transformations and delivering strong results. He previously served as Chairman and CEO of Blackboard, Inc., a leading EdTech company, from 2016 until its merger with Anthology in 2021. Prior to that, he served as CEO and President of SRA International, Inc., a provider of information technology services, from 2011 until the creation of CSRA Inc. from SRA International Inc.'s and CSC's U.S. public sector business. Before that, Mr. Ballhaus served as CEO and President of government contractor DynCorp International from 2008 to 2010. Mr. Ballhaus has also held senior leadership positions at BAE Systems, Boeing, and Hughes, where he led global government and commercial technology businesses particularly focused on software and IT.

*Christopher C. Cambria*, age 65, joined Mercury in 2016 as Senior Vice President, General Counsel and Secretary and was appointed Executive Vice President, General Counsel and Secretary in 2017. Prior to joining Mercury, he was Vice President, General Counsel and Secretary of Aerojet Rocketdyne Holdings, Inc. from 2012 to 2016 and Vice President, General Counsel from 2011 to 2012. He was with L-3 Communications Holdings, Inc. from 1997 through 2009 serving as Senior Vice President and Senior Counsel, Mergers and Acquisitions from 2006 to 2009, Senior Vice President, Secretary and General Counsel from 2001 to 2006 and Vice President, General Counsel and Secretary from 1997 to 2001. Prior to L-3, Mr. Cambria was an Associate with Fried, Frank, Harris, Shriver & Jacobson and Cravath, Swaine & Moore.

*Allen Couture*, age 55, joined Mercury in October 2022 as Senior Vice President, Execution Excellence and became Executive Vice President, Execution Excellence in July 2023. Mr. Couture joined Mercury from Raytheon Technologies, where he spent 10 years in leadership roles, most recently serving as Vice President of Operations & Security at Raytheon Missiles & Defense. Earlier in his career, Mr. Couture held senior manufacturing and operations roles with Hawker Beechcraft, including Vice President of Program Management and Vice President of Engineering & Product Development. He spent 15 years in the Canadian Armed Forces Infantry Reserves.

*David E. Farnsworth*, age 63, joined Mercury in July 2023 as Executive Vice President, Chief Financial Officer, and Treasurer. Mr. Farnsworth was the Chief Financial Officer of HawkEye 360, a radio frequency data analytics company from 2020 to 2023. Before joining HawkEye 360, Mr. Farnsworth was Vice President and Chief Financial Officer for Integrated Defense Systems of Raytheon Company from 2018 to 2020. Before that, he was CFO for the Intelligence, Information and Services segment of Raytheon.

*Christine F. Harbison*, age 57, joined Mercury in March 2023 as Executive Vice President, Chief Growth Officer. Ms. Harbison joined Mercury from Northrop Grumman's Defense Systems sector, where she served as Vice President and General Manager of the Combat Systems and Mission Readiness division from 2021 to 2023. Prior to that, she was Vice President of Northrop's C4MB business from 2020 to 2021 and Vice President of Northrop's Advanced Ground Sensors business from 2018 to 2019 and held roles of increasing importance at Raytheon Company.

*James M. Stevison*, age 57, joined Mercury in October 2021 as Executive Vice President and Chief Growth Officer and became Executive Vice President and President of Mercury's Mission Systems Division in October 2022. Dr. Stevison has more than 18 years of global experience in the aerospace and defense industry including technology development, operations management, mergers, acquisitions, and business growth. Prior to joining Mercury, he was Vice President of Strategy for Raytheon Missiles & Defense from 2020 to 2021. He also served as Vice President and General Manager of Strategic and Naval Systems at Raytheon Missiles Systems from 2019 to 2020 as well as Vice President and General Manager for Air and Missile Defense Systems at Raytheon Missile Systems from 2015 to 2019. Prior to that, he was the senior director of the SM-3® program, where he was responsible for all variants of the SM-3® missile portfolio, both domestically and internationally. Dr. Stevison has previously held senior leadership roles at Lockheed Martin and at Miltec Systems, a Ducommun Company. A U.S. Army veteran, Dr. Stevison retired from the Army in 2005, following an accomplished 20-year military career that included leadership roles with the Missile Defense Agency and the U.S. Army Aviation and Missile Command.

*Charles R. Wells, IV*, age 51, joined the Company in November 2021 as its Executive Vice President and President of Mercury's Microelectronics Division. Mr. Wells has more than 25 years' experience across multiple disciplines including engineering, business development, program management and executive management. Previously, he served as Vice President and General Manager for the Unmanned & Integrated Solutions Business Unit of Teledyne FLIR from 2018 to 2021 with full P&L responsibility while ensuring high levels of product quality and customer satisfaction. Earlier in his career, he worked as a DoD civilian supporting the development and fielding of world-wide C4ISR networks and information systems. He also held positions in Northrop Grumman and ICX Technologies and served as a private consultant for large aerospace and defense companies.

## PART II

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

Our common stock is listed and traded on the Nasdaq Global Select Market under the symbol MRCY. The following table sets forth, for the fiscal periods indicated, the high and low sale prices per share for our common stock during such periods. Such market quotations reflect inter-dealer prices without retail markup, markdown or commission.

	High	Low
2023 Fourth quarter	\$ 52.36	\$ 31.50
Third quarter	\$ 56.19	\$ 44.56
Second quarter	\$ 53.58	\$ 41.78
First quarter	\$ 63.66	\$ 40.60
2022 Fourth quarter	\$ 66.04	\$ 54.24
Third quarter	\$ 69.81	\$ 51.11
Second quarter	\$ 55.92	\$ 46.71
First quarter	\$ 66.78	\$ 45.31

As of June 30, 2023, we had 710 record shareholders and 24,235 nominee holders.

#### Dividend Policy

We have never declared or paid cash dividends on shares of our common stock. We currently intend to retain any earnings for future growth. Accordingly, we do not anticipate that any cash dividends will be declared or paid on our common stock in the foreseeable future.

#### Net Share Settlement Plans

The following table includes information with respect to net share settlements we made of our common stock during the fiscal year ended June 30, 2023:

Period of Net Share Settlement	Total Number of Shares Net Settled (1)	Average Price Per Share
July 2, 2022 - September 30, 2022	1	\$ 62.52
October 1, 2022 - December 30, 2022	—	\$ —
December 31, 2022 - March 31, 2023	—	\$ —
April 1, 2023 - June 30, 2023	—	\$ —
Total	1	

(1) Represents shares we net settled in connection with the surrender of shares to cover the minimum taxes on vesting of restricted stock. Presented in thousands.

#### Share Repurchase Plans

During fiscal 2023, we had no active share repurchase programs.

#### Equity Compensation Plans

The information required by this item is incorporated by reference to our Proxy Statement for the Shareholders Meeting.

### ITEM 6. SELECTED FINANCIAL DATA

Part II, Item 6 is no longer required as the Company has elected to early adopt the change to Item 301 of Regulation S-K contained in SEC Release No. 33-10890.



## **ITEM 7. 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 words "may," "will," "could," "should," "would," "plans," "expects," "anticipates," "continue," "estimate," "project," "intend," "likely," "forecast," "probable," "potential," and similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, continued funding of defense programs, the timing and amounts of such funding, general economic and business conditions, including unforeseen weakness in the Company's markets, effects of any U.S. federal government shutdown or extended continuing resolution, effects of geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in or cost increases related to completing development, engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in, or in the U.S. government's interpretation of, federal export control or procurement rules and regulations, changes in, or in the interpretation or enforcement of, environmental rules and regulations, market acceptance of the Company's products, shortages in or delays in receiving components, supply chain delays or volatility for critical components such as semiconductors, production delays or unanticipated expenses including due to quality issues or manufacturing execution issues, failure to achieve or maintain manufacturing quality certifications, such as AS9100, the impact of the COVID pandemic and supply chain disruption, inflation and labor shortages, among other things, on program execution and the resulting effect on customer satisfaction, inability to fully realize the expected benefits from acquisitions, restructurings, and execution excellence initiatives or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, effects of shareholder activism, increases in interest rates, changes to industrial security and cyber-security regulations and requirements and impacts from any cyber or insider threat events, changes in tax rates or tax regulations, such as the deductibility of internal research and development, changes to interest rate swaps or other cash flow hedging arrangements, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, which difficulties may be impacted by the termination of the Company's announced strategic review initiative, unanticipated challenges with the transition of the Company's Chief Executive Officer and Chief Financial Officer roles, including any dispute arising with the former CEO over his resignation, 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 this Annual Report on Form 10-K. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

### **OVERVIEW**

Mercury Systems, Inc. is a technology company that delivers processing power for the most demanding aerospace and defense missions. Headquartered in Andover, Massachusetts, our end-to-end processing platform enables a broad range of aerospace and defense programs, optimized for mission success in some of the most challenging and demanding environments. Processing technologies that comprise our platform include signal solutions, display, software applications, networking, storage and secure processing. Our innovative solutions are mission-ready, trusted and secure, software-defined and open and modular meeting our customers' cost and schedule needs today by allowing them to use or modify our products to suit their mission. Customers access our solutions via the Mercury Processing Platform, which encompasses the broad scope of our investments in technologies, companies, products, services and the expertise of our people. Ultimately, we connect our customers to what matters most to them. We connect commercial technology to defense, people to data and partners to opportunities. And, at the most human level, we connect what we do to our customers' missions; supporting the people for whom safety, security and protecting freedom are of paramount importance.

As a leading manufacturer of essential components, products, modules and subsystems, we sell to defense prime contractors, the U.S. government and original equipment manufacturers ("OEM") commercial aerospace companies. Mercury has built a trusted, robust portfolio of proven product solutions, leveraging the most advanced commercial silicon technologies and purpose-built to exceed the performance needs of our defense and commercial customers. Customers add their own applications and algorithms to our specialized, secure and innovative products and pre-integrated solutions. This allows them to complete their full system by integrating with their platform, the sensor technology and, increasingly, the processing from 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 on time constraints that matter. Our long-standing deep relationships with leading high-tech and other commercial companies, coupled with our high level of research and development ("R&D") investments on a percentage basis and industry-leading trusted and secure design and manufacturing capabilities, are the foundational tenets of this highly successful model. We are leading the development and adaptation of commercial technology for aerospace and defense solutions. From chip-scale to system scale and from data, including radio frequency ("RF") to digital to decision, we make mission-critical technologies safe, secure, affordable and relevant for our customers.

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

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

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

As of June 30, 2023, we had 2,596 employees. Our consolidated revenues, acquired revenues, net loss, diluted net loss per share, adjusted EPS, and adjusted EBITDA for fiscal 2023 were \$973.9 million, \$25.1 million, \$(28.3) million, \$(0.50), \$1.00 and \$132.3 million, respectively. Our consolidated revenues, acquired revenues, net income, EPS, adjusted EPS and adjusted EBITDA for fiscal 2022 were \$988.2 million, \$6.0 million, \$11.3 million, \$0.20, \$2.19 and \$200.5 million, respectively. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

## **BUSINESS DEVELOPMENTS:**

### FISCAL 2023

Beginning in January 2023, the Board of Directors (the "Board") engaged in a proactive and rigorous process to evaluate strategic alternatives, focused on a potential sale of Mercury. As part of the review, the Board authorized its financial advisors to contact and hold discussions with more than 40 potential bidders, including a wide range of strategic parties and financial sponsors. The Board executed confidentiality agreements with 20 parties. The two proposals ultimately received did not yield options for a sale that would reflect the intrinsic value of Mercury. Accordingly, in a press release dated June 23, 2023, we announced, among other things, that the independent members of the Board unanimously determined to conclude the sale process and instead focus on all potential opportunities to create value, including through the enhanced execution of our strategic plan under refreshed leadership.

On June 19, 2023, the Company's former President and Chief Executive Officer, delivered a letter to the Board resigning from his positions of President and Chief Executive Officer and the Board has accepted his resignation effective as of June 24, 2023. On June 23, 2023, we announced the Board has appointed William L. Ballhaus as the Company's interim President and Chief Executive Officer, effective as of June 24, 2023.

On June 29, 2023, we announced that David E. Farnsworth will be joining the Company as Executive Vice President, Chief Financial Officer, and Treasurer, on July 17, 2023.

On July 18, 2023, we executed the planned evolution of our IMPACT value creation initiative, embedding the processes and execution of IMPACT into our Execution Excellence organization. The IMPACT office in its current form has concluded its responsibilities, having successfully incorporated the principles behind IMPACT into how we think about continuous improvement at all levels of the Company.

On August 15, 2023, we announced William L. Ballhaus has been appointed President and Chief Executive Officer.

## FISCAL 2022

On February 28, 2022, we amended our existing revolving credit facility (the “Revolver”) to increase and extend the borrowing capacity to a \$1.1 billion, 5-year revolving credit line, with the maturity extended to February 28, 2027. See Note M in the accompanying consolidated financial statements for further discussion of the Revolver.

On November 29, 2021, we acquired Atlanta Micro, Inc. (“Atlanta Micro”) for a purchase price of \$90.0 million, subject to net working capital and net debt adjustments. Based in Norcross, Georgia, Atlanta Micro is a leading designer and manufacturer of high-performance RF modules and components, including advanced monolithic microwave integrated circuits which are critical for high-speed data acquisition applications including electronic warfare, radar and weapons. We funded the acquisition through our Revolver.

On September 27, 2021, we signed a definitive agreement to acquire Avalex Technologies (“Avalex”) for a purchase price of \$155.0 million, subject to net working capital and net debt adjustments. On November 5, 2021, the transaction closed and we acquired Avalex. Based in Gulf Breeze, Florida, Avalex is a provider of mission-critical avionics, including rugged displays, integrated communications management systems, digital video recorders and warning systems. We funded the acquisition with our Revolver.

## RESULTS OF OPERATIONS:

### FISCAL 2023 VS. FISCAL 2022

Results of operations for fiscal 2023 include full period results from the acquisitions of Avalex and Atlanta Micro. Results of operations for fiscal 2022 include only results from the acquisition dates for Avalex and Atlanta Micro, which were acquired on November 5, 2021 and November 29, 2021, respectively. Accordingly, the periods presented below are not directly comparable. The Company has applied the FAST Act Modernization and Simplification of Regulation S-K, which limits the discussion to the two most recent fiscal years. Refer to Item 7 of the Company's Form 10-K issued on August 16, 2022 for prior year discussion related to fiscal 2022.

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

(In thousands)	Fiscal 2023	As a % of Total Net Revenue	Fiscal 2022	As a % of Total Net Revenue
Net revenues	\$ 973,882	100.0 %	\$ 988,197	100.0 %
Cost of revenues	657,154	67.5	593,241	60.0
Gross margin	316,728	32.5	394,956	40.0
Operating expenses:				
Selling, general and administrative	160,637	16.5	157,044	15.9
Research and development	108,799	11.2	107,169	10.8
Amortization of intangible assets	53,552	5.5	60,267	6.1
Restructuring and other charges	6,981	0.7	27,445	2.8
Acquisition costs and other related expenses	8,444	0.8	11,421	1.2
Total operating expenses	338,413	34.7	363,346	36.8
(Loss) income from operations	(21,685)	(2.2)	31,610	3.2
Interest income	1,053	0.1	143	—
Interest expense	(25,159)	(2.6)	(5,806)	(0.6)
Other expense, net	(2,751)	(0.3)	(7,552)	(0.8)
(Loss) income before income taxes	(48,542)	(5.0)	18,395	1.9
Income tax (benefit) provision	(20,207)	(2.1)	7,120	0.8
Net (loss) income	\$ (28,335)	(2.9)%	\$ 11,275	1.1 %

### REVENUES

Total revenues decreased \$14.3 million, or 1.4%, to \$973.9 million during fiscal 2023, as compared to \$988.2 million during fiscal 2022 including “acquired revenue” which represents net revenue from acquired businesses that have been part of Mercury for completion of four full fiscal quarters or less (and excludes any intercompany transactions). After the completion of four full fiscal quarters, acquired businesses will be treated as organic for current and comparable historical periods. The

decrease in total revenue was primarily due to \$33.3 million less organic revenues, partially offset by \$19.0 million of additional acquired revenues. These decreases predominantly resulted from program execution delays, especially as related to approximately 20 challenged programs, primarily development in nature, for which completion is a precursor to follow-on production awards. In addition, incremental cost growth on these challenged programs delayed progress, and, therefore, revenue recognition in the fiscal year. Revenues from integrated subsystems decreased \$77.2 million or 11.8%, partially offset by increases to modules and sub-assemblies and components which increased \$33.0 million or 19.8% and \$29.8 million or 17.8%, respectively, during fiscal 2023. The decrease in total revenue was primarily from the radar, EW, and other end applications which decreased \$21.7 million, \$13.1 million, and \$2.4 million, respectively, and were partially offset by increases to the C4I and other sensor and effector end applications which increased \$14.3 million and \$8.5 million, respectively. The decrease was predominately in naval platforms which decreased \$18.6 million and was partially offset by an increase of \$5.9 million in other platforms during fiscal 2023. The largest program decreases were related to the MH-60, Filthy Buzzard, CPS, THAAD, and a classified C2 program. There were no individual programs comprising 10% or more of our revenues for fiscal 2023 and 2022. See the Non-GAAP Financial Measures section for a reconciliation to our most directly comparable GAAP financial measures.

#### **GROSS MARGIN**

Gross margin was 32.5% for fiscal 2023, a decrease of 750 basis points from the 40.0% gross margin achieved during fiscal 2022. The lower gross margin was primarily driven by approximately \$56 million of impact as a result of execution challenges across approximately 20 programs, primarily development in nature. Program mix was more heavily weighted towards development programs as compared to the prior period, which carry lower average gross margins as compared to production programs. These programs warrant higher engineering labor for customized development, production and service activities. The nature of these efforts results in lower margin content, but serve as pre-cursors to higher margin production awards.

#### **SELLING, GENERAL AND ADMINISTRATIVE**

Selling, general and administrative expenses increased \$3.6 million, or 2.3%, to \$160.6 million during fiscal 2023 as compared to \$157.0 million during fiscal 2022. The increase was primarily related to an increase in our 401(k) matching contributions from 3% to 6%, a full period of the Avalex and Atlanta Micro acquisitions driving an incremental \$4.0 million of expense, and an increase in headcount and salary rate increases, partially offset by forfeitures of our former CEO's stock-based compensation of \$6.8 million.

#### **RESEARCH AND DEVELOPMENT**

Research and development expenses increased \$1.6 million, or 1.5%, to \$108.8 million during fiscal 2023, as compared to \$107.2 million for fiscal 2022. The increase was primarily related to an increase in our 401(k) matching contributions from 3% to 6%.

#### **AMORTIZATION OF INTANGIBLE ASSETS**

Amortization of intangible assets decreased \$6.7 million to \$53.6 million during fiscal 2023, as compared to \$60.3 million for fiscal 2022, primarily due to the backlog from our Avalex and Atlanta Micro acquisitions being fully amortized in fiscal 2023.

#### **RESTRUCTURING AND OTHER CHARGES**

During fiscal 2023, the Company incurred \$7.0 million of restructuring and other charges, as compared to \$27.4 million in fiscal 2022. Restructuring and other charges during fiscal 2023 primarily related to \$3.4 million of severance costs, \$1.8 million of costs for facility optimization efforts, including \$1.3 million related to lease asset impairment, and \$1.8 million of third party consulting costs. Restructuring and other charges during fiscal 2022 primarily related to IMPACT including \$17.4 million of third party consulting costs, as well as \$9.2 million of severance costs associated with the elimination of approximately 135 positions across manufacturing, SG&A and R&D based on ongoing talent and workforce optimization efforts. In addition, fiscal 2022 includes \$0.8 million of costs for facilities optimization efforts associated with IMPACT, including \$0.5 million related to lease asset impairment.

In the first quarter of 2024, we have initiated several immediate cost savings measures that simplify our organizational structure, facilitate clearer accountability, and align to our priorities, including: (i) embedding the IMPACT value creation initiatives and execution into our operations; (ii) streamlining organizational structure and removing areas of redundancy between corporate and divisional organizations; and (iii) reduce selling, general, and administrative headcount and rebalancing discretionary and third party spending to better align with our priority areas. On July 20, 2023, we executed the plan to embed the IMPACT value creation initiatives into operations, and on August 9, 2023, we approved and initiated a workforce reduction that, together with the IMPACT related action, eliminates approximately 150 positions, resulting in expected restructuring charges of approximately \$9.0 million. These charges are for employee separation costs and will be classified as restructuring and other charges within our Statement of Operations and Other Comprehensive Income for the fiscal quarter ending September 29, 2023. We expect approximately \$15 million - \$17 million of net savings from these actions for our fiscal year ending June

28, 2024. The headcount savings, combined with other non-headcount savings, including discretionary and third party spend primarily within SG&A, are expected to yield a total fiscal year 2024 net savings of approximately \$20 million -22 million and annualized net savings of approximately \$24 million.

#### **ACQUISITION COSTS AND OTHER RELATED EXPENSES**

Acquisition costs and other related expenses were \$8.4 million during fiscal 2023, as compared to \$11.4 million during fiscal 2022. The acquisition costs and other related expenses incurred during fiscal 2023 were primarily related to \$3.7 million associated with the Board's review of strategic alternatives and \$3.5 million for third party advisory fees in connection with engagements by activist investors. The acquisition costs and other related expenses incurred during fiscal 2022 were related to the acquisitions of Avalex and Atlanta Micro, as well as \$6.8 million for third party advisory fees and settlement costs in connection with engagements by activist investors.

#### **INTEREST INCOME**

Interest income increased to \$1.1 million in fiscal 2023 from \$0.1 million in fiscal 2022. This was driven by higher interest rates during fiscal 2023 as compared to fiscal 2022.

#### **INTEREST EXPENSE**

Interest expense for fiscal 2023 increased to \$25.2 million, as compared to \$5.8 million in fiscal 2022. The increase was driven by an increase in interest rate and additional borrowings on our Revolver. Borrowings under our revolver were \$511.5 million in fiscal 2023 as compared to \$451.5 million in fiscal 2022.

#### **OTHER EXPENSE, NET**

Other expense, net was \$2.8 million during fiscal 2023, as compared to \$7.6 million in fiscal 2022. Fiscal 2023 includes \$2.3 million of financing and registration fees and \$2.1 million of litigation and settlement expenses, partially offset by net foreign currency translation gains of \$1.6 million. Fiscal 2022 includes \$2.7 million of financing and registration fees, \$2.4 million of net foreign currency translation losses, and \$1.9 million of litigation and settlement expenses.

#### **INCOME TAXES**

We recorded an income tax (benefit) provision of \$(20.2) million and \$7.1 million on (loss) income before income taxes of \$(48.5) million and \$18.4 million for fiscal years 2023 and 2022, respectively. Fiscal 2023 includes the impact of the Tax Cuts and Jobs Act of 2017 ("TCJA"), which requires companies to capitalize and amortize domestic research and development expenditures over five years for tax purposes, and foreign research and development expenditures over fifteen years for tax purposes. The cash outflow from the TJCA provision was \$26 million in fiscal 2023.

The effective tax rate for fiscal 2023 differed from the federal statutory rate of 21% primarily due to federal and state research and development tax credits, releases to reserves for unrecognized income tax benefits, state taxes, valuation allowances recorded and excess tax provisions related to stock compensation.

The effective tax rate for fiscal 2022 differed from the federal statutory rate of 21% primarily due to federal and state research and development tax credits, non-deductible compensation, provision to return adjustments, state taxes and excess tax provisions related to stock compensation.

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

#### **LIQUIDITY AND CAPITAL RESOURCES**

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

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

### ***Shelf Registration Statement***

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

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

We have an unlimited amount available under the shelf registration statement. We intend to file a renewal of the S-3ASR in September 2023 upon the expiration of the three-year term of the current shelf registration statement.

### ***Revolving Credit Facilities***

On February 28, 2022, we amended the Revolver to increase and extend the borrowing capacity to a \$1.1 billion, 5-year revolving credit line, with the maturity extended to February 28, 2027. The current borrowing capacity as defined under the Revolver as of June 30, 2023 is approximately \$865.0 million, of which we had borrowings against of \$511.5 million. See Note M in the accompanying consolidated financial statements for further discussion of the Revolver.

### ***Receivables Purchase Agreement***

On September 27, 2022, we entered into an uncommitted receivables purchase agreement (“RPA”) with Bank of the West, as purchaser, pursuant to which we may offer to sell certain customer receivables, subject to the terms and conditions of the RPA. The RPA is an uncommitted arrangement such that we are not obligated to sell any receivables and Bank of the West has no obligation to purchase any receivables from us. Pursuant to the RPA, Bank of the West may purchase certain of our customer receivables at a discounted rate, subject to a limit that as of any date, the total amount of purchased receivables held by Bank of the West, less the amount of all collections received on such receivables, may not exceed \$20.0 million. The RPA has an indefinite term and the agreement remains in effect until it is terminated by either party. On March 14, 2023, we amended the RPA to increase the capacity from \$20.0 million to \$30.6 million. On June 21, 2023, we upsized the capacity from \$30.6 million to \$60.0 million. We factored accounts receivable and incurred factoring fees of approximately \$30.5 million and \$0.6 million, respectively, for the twelve months ended June 30, 2023. We did not factor any accounts receivable or incur any factoring fees for the twelve months ended July 1, 2022.

## **CASH FLOWS**

<b>(In thousands)</b>	<b>For the Fiscal Years Ended</b>		
	<b>June 30, 2023</b>	<b>July 1, 2022</b>	<b>July 2, 2021</b>
Net cash (used in) provided by operating activities	\$ (21,254)	\$ (18,869)	\$ 97,247
Net cash used in investing activities	\$ (38,561)	\$ (274,320)	\$ (416,887)
Net cash provided by financing activities	\$ 65,429	\$ 245,754	\$ 206,229
Net increase (decrease) in cash and cash equivalents	\$ 5,909	\$ (48,185)	\$ (112,999)
Cash and cash equivalents at end of year	\$ 71,563	\$ 65,654	\$ 113,839

Our cash and cash equivalents increased by \$5.9 million during fiscal 2023 primarily as the result of \$65.4 million provided by financing activities, partially offset by \$38.8 million purchases of property and equipment and \$21.3 million used in operating activities.

### ***Operating Activities***

During fiscal 2023, we had an outflow of \$21.3 million in cash from operating activities, an increase of \$2.4 million, as compared to \$18.9 million during fiscal 2022. The increase was primarily due to higher outflows for inventory to support customer delivery schedules for existing and future awards as well as accounts payable, accrued expenses and accrued compensation. Cash paid for interest and income taxes during fiscal 2023 increased by \$21.8 million and \$10.1 million, respectively, as compared to fiscal 2022 further contributing to the decrease. The decrease was partially offset by lower outflows from unbilled receivables and costs in excess of billings, additional deferred revenues and customer advances, the change from a cash based 401(k) match to a stock based 401(k) match during fiscal 2023 and a \$6.0 million cash receipt for the termination of an interest rate swap.

### ***Investing Activities***

During fiscal 2023, we invested \$38.6 million, a decrease of \$235.7 million, as compared to \$274.3 million during fiscal 2022 primarily driven by the acquisitions of Avalex and Atlanta Micro, in the previous year. The decrease was also driven by \$3.4 million less other investing activities, partially offset by \$11.1 million higher purchases of property and equipment as compared to fiscal 2022.

### ***Financing Activities***

During fiscal 2023, we had \$65.4 million in cash provided by financing activities, as compared to \$245.8 million during fiscal 2022. During fiscal 2023, we had \$60.0 million of net borrowings on our Revolver as compared to \$251.5 million of net borrowings during fiscal 2022. We also had \$0.1 million of cash payments related to the purchase and retirement of common stock used to settle individual employees' tax liabilities associated with the annual vesting of restricted stock awards, as compared to \$8.2 million in fiscal 2022.

### **COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

The following is a schedule of our commitments and contractual obligations outstanding at June 30, 2023:

<b>(In thousands)</b>	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>
Operating leases	\$ 92,653	\$ 14,195	\$ 27,094	\$ 24,016	\$ 27,348
Purchase obligations	127,134	127,134	—	—	—
	<u>\$ 219,787</u>	<u>\$ 141,329</u>	<u>\$ 27,094</u>	<u>\$ 24,016</u>	<u>\$ 27,348</u>

See Note B and Note J to the consolidated financial statements for more information regarding our obligations under leases.

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 \$127.1 million at June 30, 2023.

We had a liability at June 30, 2023 of \$5.2 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 of these uncertain tax positions and as such, do not know the ultimate timing of payments related to this liability. Accordingly, these amounts are not included in the above table.

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

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

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

### **OFF-BALANCE SHEET ARRANGEMENTS**

Other than certain indemnification provisions, 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.

## **RELATED PARTY TRANSACTIONS**

During fiscal 2023 and 2022, we did not engage in any related party transactions.

## **NON-GAAP FINANCIAL MEASURES**

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

Adjusted EBITDA is defined as net income before other non-operating adjustments, interest income and expense, income taxes, depreciation, amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition, financing and other third party costs, fair value adjustments from purchase accounting, litigation and settlement income and expense, COVID related expenses, and stock-based and other non-cash compensation expense. We use adjusted EBITDA as an important indicator of the operating performance of our business. We use adjusted EBITDA in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our board of directors, determining a 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 (loss) income, the most directly comparable GAAP financial measure, to our adjusted EBITDA:

(In thousands)	For the Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
Net (loss) income	\$ (28,335)	\$ 11,275	\$ 62,044
Other non-operating adjustments, net	(1,589)	2,932	(724)
Interest expense, net	24,106	5,663	1,043
Income tax (benefit) provision	(20,207)	7,120	15,129
Depreciation	43,777	33,150	25,912
Amortization of intangible assets	53,552	60,267	41,171
Restructuring and other charges <sup>(1)</sup>	6,981	27,445	9,222
Impairment of long-lived assets	—	—	—
Acquisition, financing and other third party costs <sup>(2)</sup>	10,019	13,608	8,600
Fair value adjustments from purchase accounting	356	(2,009)	(290)
Litigation and settlement expense, net	495	1,908	622
COVID related expenses	67	689	9,943
Stock-based and other non-cash compensation expense <sup>(3)</sup>	43,031	38,459	29,224
Adjusted EBITDA	<u>\$ 132,253</u>	<u>\$ 200,507</u>	<u>\$ 201,896</u>

(1) Restructuring and other charges for fiscal 2023 are related to management's decision to undertake certain actions to realign operating expenses through workforce reductions and the closure of certain facilities, businesses and product lines. These charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. We believe these items are non-routine and may not be indicative of ongoing operating results.

(2) Acquisition, financing and other third party costs for fiscal 2023 are related to third party advisory fees in connection with engagements by activist investors and costs associated with the Board's review of strategic alternatives.

(3) Effective in the first quarter of fiscal 2023, the Company increased the rate of its matching contributions from 3% to 6% of participants' eligible annual compensation and changed the form of these contributions from cash to company stock. Fiscal 2023 also includes forfeitures of \$6.8 million of stock-based compensation from the Company's former CEO's resignation.

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

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

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

(In thousands, except per share data)	For the Fiscal Years Ended					
	June 30, 2023		July 1, 2022		July 2, 2021	
Net (loss) income and diluted (loss) earnings per share	\$ (28,335)	\$ (0.50)	\$ 11,275	\$ 0.20	\$ 62,044	\$ 1.12
Other non-operating adjustments, net	(1,589)		2,932		(724)	
Amortization of intangible assets	53,552		60,267		41,171	
Restructuring and other charges <sup>(1)</sup>	6,981		27,445		9,222	
Impairment of long-lived assets	—		—		—	
Acquisition, financing and other third party costs <sup>(2)</sup>	10,019		13,608		8,600	
Fair value adjustments from purchase accounting	356		(2,009)		(290)	
Litigation and settlement expense, net	495		1,908		622	
COVID related expenses	67		689		9,943	
Stock-based and other non-cash compensation expense <sup>(3)</sup>	43,031		38,459		29,224	
Impact to income taxes <sup>(4)</sup>	(27,776)		(32,309)		(25,697)	
Adjusted income and adjusted earnings per share	<u>\$ 56,801</u>	<u>\$ 1.00</u>	<u>\$ 122,265</u>	<u>\$ 2.19</u>	<u>\$ 134,115</u>	<u>\$ 2.42</u>
Diluted weighted-average shares outstanding		<u>56,874</u>		<u>55,901</u>		<u>55,474</u>

(1) Restructuring and other charges for fiscal 2023 are related to management's decision to undertake certain actions to realign operating expenses through workforce reductions and the closure of certain facilities, businesses and product lines. These charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. We believe these items are non-routine and may not be indicative of ongoing operating results.

(2) Acquisition, financing and other third party costs for fiscal 2023 are related to third party advisory fees in connection with engagements by activist investors and costs associated with the Board of Directors' review of strategic alternatives.

(3) Effective in the first quarter of fiscal 2023, the Company increased the rate of its matching contributions from 3% to 6% of participants' eligible annual compensation and changed the form of these contributions from cash to company stock. Fiscal 2023 also includes forfeitures of \$6.8 million of stock-based compensation from the Company's former CEO's resignation.

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

(In thousands)	For the Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
Net cash (used in) provided by operating activities	\$ (21,254)	\$ (18,869)	\$ 97,247
Purchase of property and equipment	(38,796)	(27,656)	(45,599)
Free cash flow	<u>\$ (60,050)</u>	<u>\$ (46,525)</u>	<u>\$ 51,648</u>

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

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

(In thousands)	Fiscal 2023	As a % of Total Net Revenue	Fiscal 2022	As a % of Total Net Revenue	\$ Change	% Change
Organic revenue	\$ 948,814	97 %	\$ 982,153	99 %	\$ (33,339)	(3)%
Acquired revenue <sup>(1)</sup>	25,068	3 %	6,044	1 %	19,024	100 %
Total revenues	<u>\$ 973,882</u>	<u>100 %</u>	<u>\$ 988,197</u>	<u>100 %</u>	<u>\$ (14,315)</u>	<u>(1)%</u>

(1) Acquired revenue for all preceding periods presented has been recast for comparative purposes.

## CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

We have identified the policies discussed below as critical to understanding our business and our results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. We believe the following critical accounting policies to be those most important to the portrayal of our financial position and results of operations and those that require the most subjective judgment.

### REVENUE RECOGNITION

We recognize revenue at a point in time or over time as the performance obligations are met. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. Contracts with distinct performance obligations recognized at a point in time, with or without an allocation of the transaction price, totaled 44% and 45% of revenues for the fiscal years ended June 30, 2023 and July 1, 2022, respectively. Total revenue recognized under contracts over time was 56% and 55% of revenues for the fiscal years ended June 30, 2023 and July 1, 2022, respectively.

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. Revenue is recognized at a point in time for these products and services (versus over time recognition) due to the following: (i) customers are only able to consume the benefits provided by us upon completion of the product or service; (ii) customers do not control the product or service prior to completion; and (iii) we do not have an enforceable right to payment at all times for performance completed to date. Accordingly, there is little judgment in determining when control of the good or service transfers to the customer, and revenue is recognized upon shipment (for goods) or completion (for services).

For contracts with multiple performance obligations, the transaction price is allocated to each performance obligation using the standalone selling price of each distinct good or service in the contract. Standalone selling prices of our goods and services are generally not directly observable. Accordingly, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we forecast the expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service. The objective of the expected cost plus a margin approach is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of the expected cost plus a margin approach involves the consideration of several factors based on the specific facts and circumstances of each contract. Specifically, we consider the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts, our ongoing pricing strategy and policies, often based on the price list established and updated by management on a regular basis, the value of any enhancements that have been built into the deliverable and the characteristics of the varying markets in which the deliverable is sold.

Revenue is recognized over time (versus point in time recognition) for long-term contracts with development, production and service activities where the performance obligations are satisfied over time. These over time contracts involve the design, development, manufacture, or modification of complex modules and sub-assemblies or integrated subsystems and related services. Revenue is recognized over time, given: (i) our performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (ii) our performance creates an asset with no alternative use to us and (iii) we have an enforceable right to payment for performance completed to date. We consider the nature of these contracts and the types of products and services provided when determining the proper accounting for a particular contract. These contracts include both

fixed-price and cost reimbursable contracts. Our cost reimbursable contracts typically include cost-plus fixed fee and time and material (“T&M”) contracts. We consider whether contracts should be combined or segmented, and based on this assessment, we combine closely related contracts when all the applicable criteria are met. The combination of two or more contracts requires judgment in determining whether the intent of entering into the contracts was effectively to enter into a single contract, which should be combined to reflect an overall profit rate. Similarly, we may separate an arrangement, which may consist of a single contract or group of contracts, with varying rates of profitability, only if the applicable criteria are met. Judgment also is involved in determining whether a single contract or group of contracts may be segmented based on how the arrangement and the related performance criteria were negotiated. The decision to combine a group of contracts or segment a contract could change the amount of revenue and gross profit recorded in a given period. For all types of contracts, we recognize anticipated contract losses as soon as they become known and estimable. These losses are recognized in advance of contract performance and as of June 30, 2023, approximately \$6.0 million of these costs were in Accrued expenses on our Consolidated Balance Sheet.

For over time contracts, we typically leverage the input method, using a cost-to-cost measure of progress. We believe that this method represents the most faithful depiction of our performance because it directly measures value transferred to the customer. Contract estimates and estimates of any variable consideration are based on various assumptions to project the outcome of future events that may span several years. These assumptions include: the amount of time to complete the contract, including the assessment of the nature and complexity of the work to be performed; the cost and availability of materials; the availability of subcontractor services and materials; and the availability and timing of funding from the customer. We bear the risk of changes in estimates to complete on a fixed-price contract which may cause profit levels to vary from period to period. For cost reimbursable contracts, we are reimbursed periodically for allowable costs and are paid a portion of the fee based on contract progress. In the limited instances where we enter into T&M contracts, revenue recognized reflects the number of direct labor hours expended in the performance of a contract multiplied by the contract billing rate, as well as reimbursement of other direct billable costs. For T&M contracts, we elected to use a practical expedient permitted by ASC 606 whereby revenue is recognized in the amount for which we have a right to invoice the customer based on the control transferred to the customer. For over time contracts, we recognize anticipated contract losses as soon as they become known and estimable.

Accounting for contracts recognized over time requires significant judgment relative to estimating total contract revenues and costs, in particular, assumptions relative to the amount of time to complete the contract, including the assessment of the nature and complexity of the work to be performed. Our estimates are based upon the professional knowledge and experience of our engineers, program managers and other personnel, who review each over time contract monthly to assess the contract’s schedule, performance, technical matters and estimated cost at completion. Changes in estimates are applied retrospectively and when adjustments in estimated contract costs are identified, such revisions may result in current period adjustments to earnings applicable to performance in prior periods.

We generally do not provide our 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. We accrue for anticipated warranty costs upon product shipment. We do not consider activities related to such assurance warranties, if any, to be a separate performance obligation. We 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.

On over time contracts, the portion of the payments retained by the customer is not considered a significant financing component because most contracts have a duration of less than one year and payment is received as progress is made. Many of our over time contracts have milestone payments, which align the payment schedule with the progress towards completion on the performance obligation. On some contracts, we may be entitled to receive an advance payment, which is not considered a significant financing component because it is used to facilitate inventory demands at the onset of a contract and to safeguard us from the failure of the other party to abide by some or all of their obligations under the contract.

We define service revenues as revenue from activities that are not associated with the design, development, production, or delivery of tangible assets, software or specific capabilities sold by us. Examples of our service revenues include: analyst services and systems engineering support, consulting, maintenance and other support, testing and installation. We combine our product and service revenues into a single class as services revenues are less than 10 percent of total revenues.

#### *INVENTORY VALUATION*

We value our inventory at the lower of cost (first-in, first-out) or its net realizable value. We write down inventory for excess and obsolescence based upon assumptions about future demand, product mix and possible alternative uses. Actual demand, product mix and alternative usage may be higher or lower resulting in variations in on our gross margin.

## GOODWILL, INTANGIBLE ASSETS AND LONG-LIVED ASSETS

We evaluate our goodwill for impairment annually in the fourth quarter and in any interim period in which events or circumstances arise that indicate our goodwill may be impaired. Indicators of impairment include, but are not limited to, a significant deterioration in overall economic conditions, a decline in our market capitalization, the loss of significant business, significant decreases in funding for our contracts, or other significant adverse changes in industry or market conditions.

We test goodwill for impairment at the reporting unit level. Goodwill impairment guidance provides entities an option to perform a qualitative assessment (commonly known as “step zero”) to determine whether further impairment testing is necessary before performing the two-step test. The qualitative assessment requires significant judgments by management about macro-economic conditions including our operating environment, industry and other market considerations, entity-specific events related to financial performance or loss of key personnel, and other events that could impact the reporting unit. If we conclude that further testing is required, the impairment test involves a two-step process. Step one compares the fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount exceeds the fair value of the reporting unit, step two is required to determine if there is an impairment of the goodwill. Step two compares the implied fair value of the reporting unit's goodwill to the carrying amount of the goodwill. We estimate the fair value of our reporting units using the income approach based upon a discounted cash flow model. The income approach requires the use of many assumptions and estimates including future revenues, expenses, capital expenditures, and working capital, as well as discount factors and income tax rates. In addition, we use the market approach, which compares the reporting unit to publicly-traded companies and transactions involving similar businesses, to support the conclusions of the income approach.

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. There has been no changes to the Company's conclusion of one operating and reportable segment in fiscal 2023.

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

As part of our annual goodwill impairment testing, we utilized a discount rate for each of our reporting units, as defined by ASC 350, that we believe represents the risks that our businesses face, considering their sizes, the current economic environment, and other industry data we believe is appropriate. The discount rates for Microelectronics and Mission Systems were 11.25%, and 12.0%, respectively. The annual testing indicated that the fair values of our Microelectronics and Mission Systems reporting units exceeded their carrying values, and thus no further testing was required.

We also review finite-lived intangible assets and long-lived assets when indications of potential impairment exist, such as a significant reduction in undiscounted cash flows associated with the assets. Should the fair value of our finite-lived intangible assets or long-lived assets decline because of reduced operating performance, market declines, or other indicators of impairment, a charge to operations for impairment may be necessary.

## INCOME TAXES

The determination of income tax expense requires us to make certain estimates and judgments concerning the calculation of deferred tax assets and liabilities, as well as the deductions and credits that are available to reduce taxable income. We recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in our consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates for the year in which the differences are expected to reverse.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results, our forecast of future earnings, future taxable income and tax planning strategies. The assumptions utilized in determining future taxable income require significant judgment. We record a valuation allowance against deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. If it becomes more likely than not that a tax asset will be used for which a reserve has been provided, we reverse the related valuation allowance. If our actual future taxable income by tax jurisdiction differs from estimates, additional allowances or reversals of reserves may be necessary.

We use a two-step approach to recognize and measure uncertain tax positions. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. We reevaluate our uncertain tax positions on a quarterly basis and any changes to these positions as a result of tax audits, tax laws or other facts and circumstances could result in additional charges to operations.

#### *BUSINESS COMBINATIONS*

We utilize the acquisition method of accounting for business combinations and allocate the purchase price of an acquisition to the various tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. We primarily establish fair value using the income approach based upon a discounted cash flow model. The income approach requires the use of many assumptions and estimates including future revenues and expenses, as well as discount factors and income tax rates. Other estimates include:

- estimated step-ups for the over time contracts fixed assets, leasehold interests and inventory;
- estimated fair values of intangible assets; and
- estimated income tax assets and liabilities assumed from the acquiree.

While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business acquisition date, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the business acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. For changes in the valuation of intangible assets between preliminary and final purchase price allocation, the related amortization is adjusted in the period it occurs. Subsequent to the purchase price allocation period any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined.

#### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

#### **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

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

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **INTEREST RATE RISK**

Our exposure to interest rate risk is related primarily to our investment portfolio and the Revolver.

Our investment portfolio includes money market funds from high quality U.S. government issuers. A change in prevailing interest rates may cause the fair value of our investments to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing rate rises, the fair value of the principal amount of our investment will probably decline. To minimize this risk, investments are generally available for sale and we generally limit the amount of credit exposure to any one issuer.

We also are exposed to the impact of interest rate changes primarily through our borrowing activities. For our variable rate borrowings, we may use a fixed interest rate swap, effectively converting a portion of variable rate borrowings to fixed rate borrowings in order to mitigate the impact of interest rate changes on earnings. We utilize interest rate derivatives to mitigate interest rate exposure with respect to our financing arrangements. There were \$511.5 million of outstanding borrowings against the Revolver at June 30, 2023.

#### **CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. We place our cash and cash equivalents with financial institutions with high credit quality. As of June 30, 2023 and July 1, 2022, we had \$71.6 million and \$65.7 million, respectively, of cash and cash equivalents on deposit or invested with our financial and lending institutions.

We provide credit to customers in the normal course of business. We perform ongoing credit evaluations of our customers’ financial condition and limit the amount of credit extended when deemed necessary. As of June 30, 2023, five customers accounted for 48% of our receivables, unbilled receivables and costs in excess of billings. As of July 1, 2022, five customers accounted for 45% of our receivables, unbilled receivables and costs in excess of billings.

## **FOREIGN CURRENCY RISK**

We operate primarily in the United States; however, we conduct business outside the United States through our foreign subsidiaries in Switzerland, the United Kingdom, Spain, and Canada where business is largely transacted in non-U.S. dollar currencies. Accordingly, we are subject to exposure from adverse movements in the exchange rates of local currencies. Local currencies are used as the functional currency for our non-U.S. subsidiaries. Consequently, changes in the exchange rates of the currencies may impact the translation of the foreign subsidiaries' statements of operations into U.S. dollars, which may in turn affect our Consolidated Statement of Operations.

We have not entered into any financial derivative instruments that expose us to material market risk, including any instruments designed to hedge the impact of foreign currency exposures. We may, however, hedge such exposure to foreign currency exchange rate fluctuations in the future.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors  
Mercury Systems, Inc.:

### *Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying consolidated balance sheets of Mercury Systems, Inc. and subsidiaries (the Company) as of June 30, 2023 and July 1, 2022, the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended June 30, 2023, and the related notes and financial statement schedule II (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of June 30, 2023, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and July 1, 2022, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended June 30, 2023, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2023 based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### *Basis for Opinions*

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

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

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

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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



*Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Estimate of total contract costs to be incurred for certain fixed price contract revenue recognized over time*

As discussed in Note B to the consolidated financial statements, revenue recognized over time for the year ended June 30, 2023 represented 56% of total revenues. For contracts where revenue is recognized over time under fixed price arrangements, the Company recognizes revenue based on the ratio of (1) actual contract costs incurred to date to (2) the Company's estimate of total contract costs to be incurred.

We identified the evaluation of total contract costs to be incurred for certain fixed price contract revenue recognized over time as a critical audit matter given the complex nature of the Company's products sold under such contracts. In particular, evaluating the Company's judgments regarding the amount of time to complete the contracts, including the assessment of the nature and complexity of the work to be performed, involved a high degree of subjective auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's process to develop estimates of total contract costs to be incurred for partially completed performance obligations. This included controls related to the estimated amount of time to complete the contracts, including the assessment of the nature and complexity of the work to be performed. We considered factors, including the value and stage of completion, to select certain customers' contracts to evaluate the Company's assumptions underlying the estimate of total contract costs to be incurred. We inspected the selected contracts to evaluate the Company's identification of performance obligations and the determined method for measuring contract progress. We compared the Company's original or prior period estimate of total contract costs to be incurred to the actual costs incurred for completed contracts to assess the Company's ability to accurately estimate costs. We inquired of operational personnel of the Company to evaluate progress to date, the estimate of remaining costs to be incurred, and factors impacting the amount of time and cost to complete the selected contracts, including the assessment of the nature and complexity of the work to be performed. We inspected correspondence, if any, between the Company and the customers for the selected contracts as part of our evaluation of contract progress.

/s/ KPMG LLP

We have served as the Company's auditor since 2006.

Boston, Massachusetts

August 15, 2023

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MERCURY SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2023	July 1, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 71,563	\$ 65,654
Accounts receivable, net of allowance for credit losses of \$1,335 and \$2,074 at June 30, 2023 and July 1, 2022, respectively	124,729	144,494
Unbilled receivables and costs in excess of billings	382,558	303,356
Inventory	337,216	270,339
Prepaid income taxes	—	7,503
Prepaid expenses and other current assets	20,952	23,906
Total current assets	<u>937,018</u>	<u>815,252</u>
Property and equipment, net	119,554	127,191
Goodwill	938,093	937,880
Intangible assets, net	298,051	351,538
Operating lease right-of-use assets, net	63,015	66,366
Deferred tax asset	27,099	—
Other non-current assets	8,537	6,188
Total assets	<u>\$ 2,391,367</u>	<u>\$ 2,304,415</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 103,986	\$ 98,673
Accrued expenses	28,423	34,954
Accrued compensation	30,419	44,813
Income tax payable	13,874	—
Deferred revenues and customer advances	56,562	15,487
Total current liabilities	<u>233,264</u>	<u>193,927</u>
Deferred income taxes	—	32,398
Income taxes payable	5,166	9,112
Long-term debt	511,500	451,500
Operating lease liabilities	66,797	69,888
Other non-current liabilities	7,955	10,405
Total liabilities	<u>824,682</u>	<u>767,230</u>
Commitments and contingencies (Note L)		
Shareholders' equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.01 par value; 85,000,000 shares authorized; 56,961,665 and 55,679,747 shares issued and outstanding at June 30, 2023 and July 1, 2022, respectively	570	557
Additional paid-in capital	1,196,847	1,145,323
Retained earnings	357,439	385,774
Accumulated other comprehensive income	11,829	5,531
Total shareholders' equity	<u>1,566,685</u>	<u>1,537,185</u>
Total liabilities and shareholders' equity	<u>\$ 2,391,367</u>	<u>\$ 2,304,415</u>

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

**MERCURY SYSTEMS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME**

(In thousands, except per share data)

	For the Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
Net revenues	\$ 973,882	\$ 988,197	\$ 923,996
Cost of revenues	657,154	593,241	538,808
Gross margin	316,728	394,956	385,188
Operating expenses:			
Selling, general and administrative	160,637	157,044	134,337
Research and development	108,799	107,169	113,481
Amortization of intangible assets	53,552	60,267	41,171
Restructuring and other charges	6,981	27,445	9,222
Acquisition costs and other related expenses	8,444	11,421	5,976
Total operating expenses	338,413	363,346	304,187
(Loss) income from operations	(21,685)	31,610	81,001
Interest income	1,053	143	179
Interest expense	(25,159)	(5,806)	(1,222)
Other expense, net	(2,751)	(7,552)	(2,785)
(Loss) income before income taxes	(48,542)	18,395	77,173
Income tax (benefit) provision	(20,207)	7,120	15,129
Net (loss) income	<u>\$ (28,335)</u>	<u>\$ 11,275</u>	<u>\$ 62,044</u>
Basic net (loss) earnings per share	<u>\$ (0.50)</u>	<u>\$ 0.20</u>	<u>\$ 1.13</u>
Diluted net (loss) earnings per share	<u>\$ (0.50)</u>	<u>\$ 0.20</u>	<u>\$ 1.12</u>
Weighted-average shares outstanding:			
Basic	<u>56,554</u>	<u>55,527</u>	<u>55,070</u>
Diluted	<u>56,554</u>	<u>55,901</u>	<u>55,474</u>
Comprehensive (loss) income:			
Net (loss) income	\$ (28,335)	\$ 11,275	\$ 62,044
Change in fair value of derivative instruments, net of tax	5,856	—	—
Foreign currency translation adjustments, net of tax	300	1,131	(739)
Pension benefit plan, net of tax	142	4,739	3,285
Total other comprehensive income, net of tax	6,298	5,870	2,546
Total comprehensive (loss) income	<u>\$ (22,037)</u>	<u>\$ 17,145</u>	<u>\$ 64,590</u>

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

**MERCURY SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
For the Fiscal Years Ended June 30, 2023, July 1, 2022 and July 2, 2021  
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	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	439	4	10	—	—	14
Issuance of common stock under employee stock purchase plan	101	1	6,280	—	—	6,281
Retirement of common stock	(1)	—	(66)	—	—	(66)
Stock-based compensation	—	—	28,543	—	—	28,543
Net income	—	—	—	62,044	—	62,044
Other comprehensive income	—	—	—	—	2,546	2,546
Balance at July 2, 2021	55,241	552	1,109,434	374,499	(339)	1,484,146
Issuance of common stock under employee stock incentive plans	477	4	(4)	—	—	—
Issuance of common stock under employee stock purchase plan	115	1	5,370	—	—	5,371
Retirement of common stock	(153)	—	(8,206)	—	—	(8,206)
Stock-based compensation	—	—	38,729	—	—	38,729
Net income	—	—	—	11,275	—	11,275
Other comprehensive income	—	—	—	—	5,870	5,870
Balance at July 1, 2022	55,680	557	1,145,323	385,774	5,531	1,537,185
Issuance of common stock under employee stock incentive plans	738	7	(7)	—	—	—
Issuance of common stock under employee stock purchase plan	145	2	5,490	—	—	5,492
Issuance of common stock under defined contribution plan	400	4	18,366	—	—	18,370
Retirement of common stock	(1)	—	(63)	—	—	(63)
Stock-based compensation	—	—	27,738	—	—	27,738
Net loss	—	—	—	(28,335)	—	(28,335)
Other comprehensive income	—	—	—	—	6,298	6,298
Balance at June 30, 2023	56,962	\$ 570	\$ 1,196,847	\$ 357,439	\$ 11,829	\$ 1,566,685

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

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

	For the Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
<b>Cash flows from operating activities:</b>			
Net (loss) income	\$ (28,335)	\$ 11,275	\$ 62,044
<b>Adjustments to reconcile net income to net cash (used in) provided by operating activities:</b>			
Depreciation and amortization expense	97,329	93,417	67,083
Stock-based compensation expense	27,753	38,293	28,290
Share-based matching contributions on defined contribution plan	15,665	—	—
Benefit for deferred income taxes	(59,647)	(2,419)	(1,125)
Other non-cash items	(746)	(497)	3,745
Cash settlement for termination of interest rate swap	5,995	—	—
<b>Changes in operating assets and liabilities, net of effects of businesses acquired:</b>			
Accounts receivable, unbilled receivables, and costs in excess of billings	(58,718)	(146,477)	(51,981)
Inventory	(64,061)	(40,902)	(27,441)
Prepaid income taxes	7,433	(4,977)	1,703
Prepaid expenses and other current assets	2,942	(4,396)	1,718
Other non-current assets	3,769	6,117	5,459
Accounts payable, accrued expenses and accrued compensation	(16,732)	58,395	(6,315)
Deferred revenues and customer advances	40,701	(18,998)	13,731
Income taxes payable	9,907	1,009	4,080
Other non-current liabilities	(4,509)	(8,709)	(3,744)
Net cash (used in) provided by operating activities	<u>(21,254)</u>	<u>(18,869)</u>	<u>97,247</u>
<b>Cash flows from investing activities:</b>			
Acquisition of businesses, net of cash acquired	—	(243,464)	(372,826)
Purchases of property and equipment	(38,796)	(27,656)	(45,599)
Other investing activities	235	(3,200)	1,538
Net cash used in investing activities	<u>(38,561)</u>	<u>(274,320)</u>	<u>(416,887)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from employee stock plans	5,492	5,371	6,295
Borrowings under credit facilities	140,000	251,500	200,000
Payments under credit facilities	(80,000)	—	—
Payments for retirement of common stock	(63)	(8,206)	(66)
Payments of deferred financing and offering costs	—	(2,911)	—
Net cash provided by financing activities	<u>65,429</u>	<u>245,754</u>	<u>206,229</u>
Effect of exchange rate changes on cash and cash equivalents	295	(750)	412
Net increase (decrease) in cash and cash equivalents	5,909	(48,185)	(112,999)
Cash and cash equivalents at beginning of year	65,654	113,839	226,838
Cash and cash equivalents at end of year	<u>\$ 71,563</u>	<u>\$ 65,654</u>	<u>\$ 113,839</u>
<b>Cash paid during the period for:</b>			
Interest	\$ 27,288	\$ 5,492	\$ 1,088
Income taxes	\$ 24,243	\$ 14,121	\$ 8,983
<b>Supplemental disclosures—non-cash activities:</b>			
Non-cash investing activity: Purchases of property and equipment incurred but not yet paid	\$ 6,475	\$ 6,919	\$ (1,928)

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

## MERCURY SYSTEMS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

#### A. Description of Business

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

For further details on the acquisitions, see Note C to the consolidated financial statements.

#### B. Summary of Significant Accounting Policies

##### PRINCIPLES OF CONSOLIDATION

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.

##### BASIS OF PRESENTATION

All references to fiscal 2023 are to the 52-week period from July 2, 2022 to June 30, 2023. All references to fiscal 2022 are to the 52-week period from July 3, 2021 to July 1, 2022. All references to fiscal 2021 are to the 52-week period from July 4, 2020 to July 2, 2021.

##### USE OF ESTIMATES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("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 of 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. Other estimates include:

- estimated step-ups for fixed assets and inventory;
- estimated fair values of intangible assets; and
- estimated income tax assets and liabilities assumed from the acquiree.

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business acquisition date, the estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the business acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. For changes in the valuation of intangible assets between the preliminary and final purchase price allocation, the related amortization is adjusted in the period it occurs. Subsequent to the purchase price allocation period, any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined.

##### LEASES

The Company measures its lease obligations in accordance with ASC 842, *Leases*, ("ASC 842"), which requires lessees to recognize a right-of-use ("ROU") asset and lease liability for most lease arrangements.

The Company has arrangements involving the lease of facilities, machinery and equipment. Under ASC 842, at inception of the arrangement, the Company determines whether the contract is or contains a lease and whether the lease should be

classified as an operating or a financing lease. This determination, among other considerations, involves an assessment of whether the Company can control the underlying asset and have the right to obtain substantially all of the economic benefits or outputs from the asset.

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

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

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

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

## **REVENUE RECOGNITION**

The Company recognizes revenue in accordance with the five step model set forth by ASC 606, *Revenue from Contracts with Customers*, (“ASC 606”), which involves identification of the contract(s), identification of performance obligations in the contract, determination of the transaction price, allocation of the transaction price to the previously identified performance obligations, and revenue recognition as the performance obligations are satisfied.

During step one of the five step model, the Company considers whether contracts should be combined or segmented, and based on this assessment, the Company combines closely related contracts when all the applicable criteria are met. The combination of two or more contracts requires judgment in determining whether the intent of entering into the contracts was effectively to enter into a single contract, which should be combined to reflect an overall profit rate. Similarly, the Company may separate an arrangement, which may consist of a single contract or group of contracts, with varying rates of profitability, only if the applicable criteria are met. Judgment also is involved in determining whether a single contract or group of contracts may be segmented based on how the arrangement and the related performance criteria were negotiated. The conclusion to combine a group of contracts or segment a contract could change the amount of revenue and gross profit recorded in a given period.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied. Certain contracts with customers require the Company to perform tests of its products prior to shipment to ensure their performance complies with the Company's published product specifications and, on occasion, with additional customer-requested specifications. In these cases, the Company conducts such tests and, if they are completed successfully, includes a written confirmation with each order shipped. As a result, at the time of each product shipment, the Company believes that no further customer testing requirements exist and that there is no uncertainty of acceptance by its customer. The Company's contracts with customers generally do not include a right of return relative to delivered products. In certain cases, contracts are modified to account for changes in the contract specifications or requirements. In most instances, contract modifications are accounted for as part of the existing contract. Certain contracts with customers have options for the customer to acquire additional goods or services. In most cases the pricing of these options are reflective of the standalone selling price of the good or service. These options do not provide the customer with a material right and are accounted for only when the

customer exercises the option to purchase the additional goods or services. If the option on the customer contract was not indicative of the standalone selling price of the good or service, the material right would be accounted for as a separate performance obligation.

The Company is a leading technology company serving the aerospace and defense industry, positioned at the intersection of high-tech and defense. 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.

Once the Company identifies the performance obligations, the Company then determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. Variable consideration typically arises due to volume discounts, or other provisions that can either decrease or increase the transaction price. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the method the Company expects to better predict the amount of consideration to which it will be entitled. The determination of the estimates for variable consideration require judgment, and are based on past history with similar contracts and anticipated performance. Further, variable consideration is only included in the determination of the transaction price if it is probable that a significant reversal in the amount of revenue recognized will not occur. There are no constraints on the variable consideration recorded.

For contracts with multiple performance obligations, the transaction price is allocated to each performance obligation using the standalone selling price of each distinct good or service in the contract. Standalone selling prices of the Company's goods and services are generally not directly observable. Accordingly, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which the Company estimates the expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service. The objective of the expected cost plus a margin approach is to determine the price at which the Company would transact if the product or service were sold by the Company on a standalone basis. The Company's determination of the expected cost plus a margin approach involves the consideration of several factors based on the specific facts and circumstances of each contract. Specifically, the Company considers the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts, the Company's ongoing pricing strategy and policies, often based on the price list established and updated by management on a regular basis, the value of any enhancements that have been built into the deliverable and the characteristics of the varying markets in which the deliverable is sold.

The Company analyzes the standalone selling prices used in its allocation of transaction price on contracts at least annually. Standalone selling prices will be analyzed on a more frequent basis if a significant change in the Company's business necessitates a more frequent analysis or if the Company experiences significant variances in its selling prices.

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 44%, 45% and 58% of revenues in the fiscal years ended June 30, 2023, July 1, 2022 and July 2, 2021, respectively. Revenue is recognized at a point in time for these products and services (versus over time recognition) due to the following: (i) customers are only able to consume the benefits provided by the Company upon completion of the product or service; (ii) customers do not control the product or service prior to completion; and (iii) the Company does not have an enforceable right to payment at all times for performance completed to date. Accordingly, there is little judgment in determining when control of the good or service transfers to the customer, and revenue is generally recognized upon transfer of control (for goods) or completion (for services).

The Company engages in contracts for development, production and service activities and recognizes revenue for performance obligations over time. These over time contracts involve the design, development, manufacture, or modification of complex modules and sub-assemblies or integrated subsystems and related services. Revenue is recognized over time, due to the fact that: (i) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and (ii) the Company's performance creates an asset with no alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. The Company considers the nature of these contracts and the types of products and services provided when determining the proper accounting for a particular contract. These 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 ("T&M") contracts.



For over time contracts, the Company typically leverages the input method, using a cost-to-cost measure of progress. The Company believes that this method represents the most faithful depiction of the Company's performance because it directly measures value transferred to the customer. Contract estimates and estimates of any variable consideration are based on various assumptions to project the outcome of future events that may span several years. These assumptions include: the amount of time to complete the contract, including the assessment of the nature and complexity of the work to be performed; the cost and availability of materials; the availability of subcontractor services and materials; and the availability and timing of funding from the customer. The Company bears the risk of changes in estimates to complete on a fixed-price contract which may cause profit levels to vary from period to period. For cost reimbursable contracts, the Company is reimbursed periodically for allowable costs and is paid a portion of the fee based on contract progress. In the limited instances where the Company enters into T&M contracts, revenue recognized reflects the number of direct labor hours expended in the performance of a contract multiplied by the contract billing rate, as well as reimbursement of other direct billable costs. For T&M contracts, the Company recognizes revenue in the amount for which the Company has a right to invoice the customer based on the control transferred to the customer. For over time contracts, the Company recognizes anticipated contract losses as soon as they become known and estimable.

Accounting for contracts recognized over time requires significant judgment relative to estimating total contract revenues and costs, in particular, assumptions relative to the amount of time to complete the contract, including the assessment of the nature and complexity of the work to be performed. The Company's estimates are based upon the professional knowledge and experience of its engineers, program managers and other personnel, who review each over time contract monthly to assess the contract's schedule, performance, technical matters and estimated cost at completion. Changes in estimates are applied retrospectively and when adjustments in estimated contract costs are identified, such revisions may result in current period adjustments to earnings applicable to performance in prior periods.

Total revenue recognized under over time contracts over time was 56%, 55% and 42% of revenues in the fiscal years ended June 30, 2023, July 1, 2022 and July 2, 2021, 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.

On over time contracts, the portion of the payments retained by the customer is not considered a significant financing component because most contracts have a duration of less than one year and payment is received as progress is made. Many of the Company's over time contracts have milestone payments, which align the payment schedule with the progress towards completion on the performance obligation. On some contracts, the Company may be entitled to receive an advance payment, which is not considered a significant financing component because it is used to facilitate inventory demands at the onset of a contract and to safeguard the Company from the failure of the other party to abide by some or all of their obligations under the contract.

All revenues are reported net of government assessed taxes (e.g., sales taxes or value-added taxes).

#### **COSTS TO OBTAIN AND FULFILL A CONTRACT**

The Company expenses sales commissions as incurred for contracts where the amortization period would have been one year or less. The Company had \$1,328 and \$1,503 of deferred sales commissions for contracts where the amortization period is greater than one year as of June 30, 2023 and July 1, 2022, respectively.

The Company has elected to treat shipping and handling activities performed after the customer has obtained control of the related goods as a fulfillment cost. Such costs are accrued for in conjunction with the recording of revenue for the goods and are classified as cost of revenues.

#### **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 \$382,558 and \$303,356 as of June 30, 2023 and July 1, 2022, respectively. The contract asset balance increased due to growth in revenue recognized under contracts, as well as the timing of program milestone billings during the fiscal year ended June 30, 2023. The contract liability balances were \$57,142 and \$15,966 as of June 30, 2023 and July 1, 2022, respectively. The contract liability increased due to a higher volume of advanced milestone billing events as well as timing of revenue conversion across multiple programs.

Revenue recognized during fiscal 2023 that was included in the contract liability balance at July 1, 2022 was \$11,258.

#### **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 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 June 30, 2023, the aggregate amount of the transaction price allocated to remaining performance obligations was \$550,973. The Company expects to recognize approximately 62% of its remaining performance obligations as revenue in the next 12 months and the balance thereafter.

#### **CASH AND CASH EQUIVALENTS**

Cash equivalents, consisting of highly liquid money market funds and U.S. government and U.S. government agency issues with original maturities of 90 days or less at the date of purchase, are carried at fair market value which approximates cost.

#### **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company measures at fair value certain financial assets and liabilities, including cash equivalents, restricted cash, interest rate derivatives, and contingent consideration. ASC 820, *Fair Value Measurement and Disclosures*, specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1—Quoted prices for identical instruments in active markets;

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

#### **CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company places its cash and cash equivalents with financial institutions of high credit quality. As of June 30, 2023 and July 1, 2022, the Company had \$71,563 and \$65,654, respectively, of cash and cash equivalents on deposit or invested with its financial and lending institutions.

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 when deemed necessary. As of June 30, 2023, five customers accounted for 48% of the Company's accounts receivable, unbilled receivables and costs in excess of billings. As of July 1, 2022, five customers accounted for 45% of the Company's accounts receivable, unbilled receivables and costs in excess of billings.

The Company maintains an allowance for credit losses to provide for the estimated amount of receivables that will not be fully collected. The allowance is based on the assessment of the following factors: customer creditworthiness; historical payment experience; age of outstanding receivables; and any applicable collateral.

## 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 evaluates 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 and non-cancelable on-order inventory in excess of estimated usage. The excess and obsolete inventory evaluation is based upon assumptions about future demand, product mix and possible alternative uses.

## SEGMENT INFORMATION

The Company uses the management approach for segment disclosure, which designates the internal organization that is used by management for making operating decisions and assessing performance as the source of its reportable segments. The Company manages its business on the basis of one reportable segment, as a leading technology company serving the aerospace and defense industry.

## GOODWILL AND INTANGIBLE ASSETS

Goodwill is the amount by which the purchase price of a business acquisition exceeded the fair values of the net identifiable assets on the date of purchase (see Note G). In accordance with the requirements of *Intangibles-Goodwill and Other* (“ASC 350”) Goodwill is not amortized. Goodwill is assessed for impairment at least annually, on a reporting unit basis, or when events and circumstances occur indicating that the recorded goodwill may be impaired. If the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess.

Intangible assets result from the Company’s various business acquisitions (see Note H) and certain licensed technologies, and consist of identifiable intangible assets, including completed technology, licensing agreements, patents, customer relationships, trademarks, backlog and non-compete agreements. Intangible assets are reported at cost, net of accumulated amortization and are either amortized on a straight-line basis over their estimated useful lives of up to 12.5 years or over the period the economic benefits of the intangible asset are consumed.

## LONG-LIVED ASSETS

Long-lived assets primarily include property and equipment, intangible assets and ROU assets. The Company regularly evaluates its long-lived assets for events and circumstances that indicate a potential impairment in accordance with ASC 360, *Property, Plant, and Equipment* (“ASC 360”). The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows of the asset as compared to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value.

Property and equipment are the long-lived, physical assets of the Company acquired for use in the Company’s normal business operations and are not intended for resale by the Company. These assets are recorded at cost. Renewals and betterments that increase the useful lives of the assets are capitalized. Repair and maintenance expenditures that increase the efficiency of the assets are expensed as incurred. Equipment under capital lease is recorded at the present value of the minimum lease payments required during the lease period. Depreciation is based on the estimated useful lives of the assets using the straight-line method (see Note F).

As assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations.

Expenditures for major software purchases and software developed for internal use are capitalized and depreciated using the straight-line method over the estimated useful lives of the related assets, which are generally three years. For software developed for internal use, all external direct costs for material and services and certain payroll and related fringe benefit costs are capitalized in accordance with ASC 350. During fiscal 2023, 2022 and 2021, the Company capitalized \$3,931, \$3,000 and \$1,640 of software development costs, respectively.

## INCOME TAXES

The Company accounts for income taxes under ASC 740, *Income Taxes* (“ASC 740”). The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the Company’s consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates for the year in which the differences are expected to reverse. The Company records a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

ASC 740 requires a two-step approach to recognizing and measuring uncertain tax positions. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

#### PRODUCT WARRANTY ACCRUAL

The Company's product sales generally include a 12 to 36 month standard hardware warranty. At time of product shipment, the Company accrues for the estimated cost to repair or replace potentially defective products. Estimated warranty costs are based upon prior actual warranty costs for substantially similar transactions and any specifically identified warranty requirements. Product warranty accrual is included as part of accrued expenses in the accompanying Consolidated Balance Sheets. The following table presents the changes in the Company's product warranty accrual.

	Fiscal 2023	Fiscal 2022	Fiscal 2021
Beginning balance	\$ 1,857	\$ 3,283	\$ 3,835
Accruals for warranties issued during the period	1,146	359	2,446
Settlements made during the period	(1,721)	(1,785)	(2,998)
Ending balance	<u>\$ 1,282</u>	<u>\$ 1,857</u>	<u>\$ 3,283</u>

#### RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred. Research and development costs are primarily made up of labor charges and prototype material and development expenses.

#### STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which generally represents the vesting period, and includes an estimate of the awards that will be forfeited. Stock-based compensation expense for the Company's performance-based restricted stock awards is amortized over the requisite service period using graded vesting. The Company's other restricted stock awards recognize expense over the requisite service period on a straight-line basis.

#### RETIREMENT OF COMMON STOCK

Stock that is repurchased or received in connection with the vesting of restricted stock is retired immediately upon the Company's repurchase. The Company accounts for this under the cost method and upon retirement the excess amount over par value is charged against additional paid-in capital.

#### NET EARNINGS PER SHARE

Basic net earnings (loss) per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net earnings (loss) per share computation includes the effect of shares which would be issuable upon the exercise of outstanding stock options and the vesting of restricted stock, reduced by the number of shares which are assumed to be purchased by the Company under the treasury stock method. For all periods presented, net (loss) income is the control number for determining whether securities are dilutive or not.

Basic and diluted weighted average shares outstanding were as follows:

	Fiscal 2023	Fiscal 2022	Fiscal 2021
Basic weighted-average shares outstanding	56,554	55,527	55,070
Effect of dilutive equity instruments	—	374	404
Diluted weighted-average shares outstanding	<u>56,554</u>	<u>55,901</u>	<u>55,474</u>

Equity instruments to purchase 1,852, 39 and 42 shares of common stock were not included in the calculation of diluted net earnings per share for the fiscal years ended June 30, 2023, July 1, 2022 and July 2, 2021, respectively, because the equity instruments were anti-dilutive.

## ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated other comprehensive (loss) income (“AOCI”) includes changes in fair value of derivative instruments, foreign currency translation adjustments and pension benefit plan adjustments. The components of AOCI included the change in fair value of derivative instruments, net of tax adjustments are included and totaled \$5,856 for the fiscal year ended June 30, 2023 and there were no change in fair value of derivative instruments, net of tax adjustments for the fiscal years ended July 1, 2022 and July 2, 2021, respectively. Also included are \$300, \$1,131 and \$(739) of foreign currency translation adjustments for the fiscal years ended June 30, 2023, July 1, 2022 and July 2, 2021, respectively, and pension benefit plan adjustments totaled \$142, \$4,739 and \$3,285 for the fiscal years ended June 30, 2023, July 1, 2022 and July 2, 2021, respectively.

A summary of the change in component of Accumulated other comprehensive (loss) income, net of tax is provided below:

	<b>Foreign currency translation adjustments, net of tax</b>	<b>Pension benefit plan, net of tax</b>	<b>Change in fair of derivative instruments, net of tax</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>
Balance at July 3, 2020	\$ 659	\$ (3,544)	\$ —	\$ (2,885)
Other comprehensive (loss) income, net of tax	(739)	3,285	—	2,546
Balance at July 2, 2021	(80)	(259)	—	(339)
Other comprehensive income, net of tax	1,131	4,739	—	5,870
Balance at July 1, 2022	1,051	4,480	—	5,531
Other comprehensive income, net of tax	300	142	5,856	6,298
Balance at June 30, 2023	<u>\$ 1,351</u>	<u>\$ 4,622</u>	<u>\$ 5,856</u>	<u>\$ 11,829</u>

## FOREIGN CURRENCY

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

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

## RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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

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

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

## C. Acquisitions

### ATLANTA MICRO ACQUISITION

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

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

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

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

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

## AVALEX ACQUISITION

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

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

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

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

The goodwill of \$81,772 largely reflects the potential synergies and expansion of the Company's offerings across product lines and markets complementary to the Company's existing products and markets. The goodwill from this acquisition is reported in the Mission Systems reporting unit. The Company is amortizing the amount over 15 years for tax purposes. As of June 30, 2023, the Company had \$74,676 of goodwill deductible for tax purposes.



#### D. Fair Value of Financial Instruments

	Fair Value Measurements			
	June 30, 2023	Level 1	Level 2	Level 3
Assets:				
Interest rate swap	\$ 3,523	\$ —	\$ 3,523	\$ —
Total	\$ 3,523	\$ —	\$ 3,523	\$ —

The carrying values of cash and cash equivalents, including money market funds, restricted cash, accounts receivable and payable, contract assets and liabilities and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The Company determined the carrying value of long-term debt approximated fair value due to variable interest rates charged on the borrowings, which reprice frequently.

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

On September 29, 2022, the Company terminated the initial Swap. At the time of termination, the fair value of the initial Swap was an asset of \$5,995. The Company received the cash settlement of \$5,995 and these proceeds are classified within Operating Activities of the Consolidated Statements of Cash Flows. During the twelve months ended June 30, 2023, the Company amortized \$1,017 of the gain, which is included within Accumulated other comprehensive (loss) income.

Following the termination of the initial Swap, the Company entered a new Swap agreement (“the Swap”) on September 29, 2022 with JPMorgan. The Swap fixes \$300,000 of the total \$511,500 existing borrowings of outstanding borrowings under the Revolver at a rate of 3.79%. As of June 30, 2023, the fair value of the hedge was an asset of \$3,523 and is included within Other non-current assets in the Company's Consolidated Balance Sheets.

#### E. Inventory

Inventory was comprised of the following:

	As of	
	June 30, 2023	July 1, 2022
Raw materials	\$ 229,984	\$ 178,410
Work in process	81,930	64,287
Finished goods	25,302	27,642
Total	\$ 337,216	\$ 270,339

#### F. Property and Equipment

Property and equipment consisted of the following:

	Estimated Useful Lives (Years)	As of	
		June 30, 2023	July 1, 2022
Computer equipment and software	3-4	\$ 125,297	\$ 113,930
Furniture and fixtures	5	20,729	19,958
Leasehold improvements	lesser of estimated useful life or lease term	70,305	66,117
Machinery and equipment	5-10	136,504	117,073
		352,835	317,078
Less: accumulated depreciation		(233,281)	(189,887)
Property and equipment, net		\$ 119,554	\$ 127,191

The \$7,637 decrease in property and equipment, net was primarily due to depreciation expense and was partially offset by current year additions. During fiscal 2023 and 2022, the Company retired \$1,056 and \$805, respectively, of computer equipment and software, furniture, and fixtures, leasehold improvements, and machinery and equipment that were no longer in use by the Company.

Depreciation expense related to property and equipment for the fiscal years ended June 30, 2023, July 1, 2022 and July 2, 2021 was \$43,777, \$33,150 and \$25,912, respectively.

**G. Goodwill**

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

The following table sets forth the changes in the carrying amount of goodwill for the twelve months ended June 30, 2023:

	<b>Total</b>
Balance at July 1, 2022	\$ 937,880
Goodwill adjustment for the Avalex acquisition	66
Goodwill adjustment for the Atlanta Micro acquisition	147
Balance at June 30, 2023	<u>\$ 938,093</u>

The Company performed its annual goodwill impairment test in the fourth quarter of fiscal 2023 with no impairment noted.

## H. Intangible Assets

Intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
June 30, 2023				
Customer relationships	\$ 349,120	\$ (130,756)	\$ 218,364	12.1 years
Licensing agreements and patents	4,162	(1,423)	2,739	5.0 years
Completed technologies	134,983	(60,680)	74,303	8.0 years
Backlog	410	(325)	85	2.0 years
Other	3,236	(676)	2,560	5.0 years
	<u>\$ 491,911</u>	<u>\$ (193,860)</u>	<u>\$ 298,051</u>	
July 1, 2022				
Customer relationships	\$ 349,710	\$ (99,219)	\$ 250,491	12.1 years
Licensing agreements and patents	4,162	(592)	3,570	5.0 years
Completed technologies	161,023	(68,264)	92,759	8.5 years
Backlog	7,670	(5,880)	1,790	1.4 years
Other	3,236	(308)	2,928	5.0 years
	<u>\$ 525,801</u>	<u>\$ (174,263)</u>	<u>\$ 351,538</u>	

Estimated future amortization expense for intangible assets remaining at June 30, 2023 is as follows:

Fiscal Year	Totals
2024	\$ 47,540
2025	42,836
2026	38,199
2027	35,093
2028	31,169
Thereafter	101,822
Total future amortization expense	<u>\$ 296,659</u>
Estimated salvage value of identified intangible assets	1,392
Net carrying amount	<u>\$ 298,051</u>

## I. Restructuring

During fiscal 2023, the Company incurred \$6,981 of restructuring and other charges. Restructuring and other charges primarily related to \$3,415 of severance costs, IMPACT related costs consisting of \$1,804 for facility optimization efforts, including \$1,339 related to lease asset impairment, and \$1,762 of third party consulting costs. The Company incurs restructuring and other charges in connection with management's decision to undertake certain actions to realign operating expenses through workforce reductions and the closure of certain Company facilities, businesses and product lines. The Company's adjustments reflected in restructuring and other charges are typically related to organizational redesign programs or discrete post-acquisition integration activities initiated as part of discrete post acquisition integration activities.

During fiscal 2022, restructuring and other charges primarily related to IMPACT including \$17,424 of third party consulting costs, as well as \$9,234 of severance costs associated with the elimination of approximately 135 positions across manufacturing, SG&A and R&D based on ongoing talent and workforce optimization efforts. Fiscal 2022 also includes \$787 of costs for facility optimization efforts associated with IMPACT, including \$544 related to lease asset impairment.

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

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

	Severance & Related	Facilities & Other	Total
Restructuring liability at July 2, 2021	\$ 1,006	\$ —	\$ 1,006
Restructuring charges	9,234	243	9,477
Cash paid	(5,518)	(243)	(5,761)
Restructuring liability at July 1, 2022	4,722	—	4,722
Restructuring charges	3,415	465	3,880
Cash paid	(6,608)	(444)	(7,052)
Reversals (*)	—	(21)	(21)
Restructuring liability at June 30, 2023	<u>\$ 1,529</u>	<u>\$ —</u>	<u>\$ 1,529</u>

## J. Leases

The Company enters into lease arrangements to facilitate its operations, including manufacturing, storage, as well as engineering, sales, marketing and administration resources. The Company measures its lease obligations in accordance with ASC 842, which requires lessees to record a ROU asset and lease liability for most lease arrangements. Finance leases are not material to the Company's consolidated financial statements and therefore are excluded from the following disclosures.

### SUPPLEMENTAL BALANCE SHEET INFORMATION

Supplemental operating lease balance sheet information is summarized as follows:

	As of June 30, 2023	As of July 1, 2022
Operating lease right-of-use assets, net	<u>\$ 63,015</u>	<u>\$ 66,366</u>
Accrued expenses(1)	\$ 10,434	\$ 11,246
Operating lease liabilities	66,797	69,888
Total operating lease liabilities	<u>\$ 77,231</u>	<u>\$ 81,134</u>

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

OTHER SUPPLEMENTAL INFORMATION

Other supplemental operating lease information is summarized as follows:

	For the Fiscal Year Ended June 30, 2023	For the Fiscal Year Ended July 1, 2022
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 10,756	\$ 11,119
Right-of-use assets obtained in exchange for new lease liabilities	\$ 10,627	\$ 10,502
Weighted average remaining lease term	7.0 years	7.6 years
Weighted average discount rate	5.17 %	4.58 %

MATURITIES OF LEASE COMMITMENTS

Maturities of operating lease commitments as of June 30, 2023 were as follows:

Fiscal Year	Totals
2024	\$ 14,195
2025	14,173
2026	12,921
2027	12,669
2028	11,347
Thereafter	27,349
<b>Total lease payments</b>	<b>92,654</b>
Less: imputed interest	(15,423)
<b>Present value of operating lease liabilities</b>	<b>\$ 77,231</b>

During fiscal 2023, 2022 and 2021 the Company recognized operating lease expense of \$13,763, \$14,332, and \$11,714, respectively. There were no material restrictions, covenants, sale and leaseback transactions, variable lease payments or residual value guarantees imposed by the Company's leases at June 30, 2023.

## K. Income Taxes

The components of income before income taxes and income tax (benefit) provision were as follows:

	Fiscal Years		
	2023	2022	2021
(Loss) income before income taxes:			
United States	\$ (42,864)	\$ 24,286	\$ 85,101
Foreign	(5,678)	(5,891)	(7,928)
	<u>\$ (48,542)</u>	<u>\$ 18,395</u>	<u>\$ 77,173</u>
Tax (benefit) provision:			
Federal:			
Current	\$ 33,898	\$ 3,857	\$ 12,157
Deferred	(54,010)	(230)	(995)
	<u>(20,112)</u>	<u>3,627</u>	<u>11,162</u>
State:			
Current	10,054	3,626	6,271
Deferred	(10,200)	(2,721)	(2,689)
	<u>(146)</u>	<u>905</u>	<u>3,582</u>
Foreign:			
Current	104	2,535	435
Deferred	(53)	53	(50)
	<u>51</u>	<u>2,588</u>	<u>385</u>
	<u>\$ (20,207)</u>	<u>\$ 7,120</u>	<u>\$ 15,129</u>

The following is the reconciliation between the statutory Federal income tax rate and the Company's effective income tax rate:

	Fiscal Years		
	2023	2022	2021
Tax provision (benefit) at federal statutory rates	(21.0)%	21.0 %	21.0 %
State income tax, net of federal tax benefit	(5.4)	8.1	6.7
Research and development tax credits	(15.1)	(39.5)	(10.9)
Provision to return	(0.7)	10.3	(1.3)
Excess tax (benefit) provision related to stock compensation	2.6	5.3	(3.7)
Foreign income tax rate differential	0.2	2.3	0.9
Non-deductible compensation	1.0	20.9	3.6
Acquisition costs	—	1.2	0.4
Reserves for unrecognized income tax benefits	(6.9)	5.4	1.3
Valuation allowance	3.8	4.3	1.9
Foreign derived intangible income	(1.4)	(1.6)	(0.4)
Meals and entertainment	0.6	0.8	0.1
Other	0.7	0.2	—
	<u>(41.6)%</u>	<u>38.7 %</u>	<u>19.6 %</u>

The effective tax rate for fiscal 2023 differed from the Federal statutory rate primarily due to Federal and state research and development tax credits, releases to reserves for unrecognized income tax benefits and state taxes, partially offset by valuation allowances recorded and excess tax provisions related to stock compensation.

The effective tax rate for fiscal 2022 differed from the Federal statutory rate primarily due to additional tax provisions for non-deductible compensation, provision to return adjustments, state taxes and excess tax provisions related to stock compensation, partially offset by benefits related to research and development tax credits.

The effective tax rate for fiscal 2021 differed from the Federal statutory rate primarily due to benefits related to research and development tax credits and excess tax benefits related to stock compensation, partially offset by additional tax provisions related to state taxes and non-deductible compensation.

During fiscal 2023, 2022 and 2021 the Company recognized a tax provision (benefit) of \$1,244, \$977 and \$(2,831) related to stock compensation, respectively.

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

Effective for tax years beginning after December 31, 2021, the Tax Cuts and Jobs Act of 2017 ("TCJA") requires companies to capitalize and amortize domestic research and development expenditures over five years for tax purposes, and foreign research and development expenditures over fifteen years for tax purposes. The cash outflow from this provision was \$26,400 in fiscal 2023.

The components of the Company's net deferred tax assets (liabilities) were as follows:

	As of	
	June 30, 2023	July 1, 2022
<b>Deferred tax assets:</b>		
Inventory valuation and receivable allowances	\$ 18,095	\$ 17,248
Accrued compensation	3,127	5,970
Stock compensation	5,149	6,154
Federal and state tax credit carryforwards	14,287	20,294
Other accruals	2,705	1,503
Research and development expenditures	63,114	—
Deferred compensation	930	930
Federal and state net operating loss carryforward	774	5,275
Foreign net operating loss carryforward	3,166	1,859
Operating lease liabilities	19,968	21,988
Deferred revenue	1,260	743
Other	1,065	307
	<u>133,640</u>	<u>82,271</u>
Valuation allowance	(14,785)	(15,349)
Total deferred tax assets	118,855	66,922
<b>Deferred tax liabilities:</b>		
Prepaid expenses	(1,710)	(1,815)
Property and equipment	(15,798)	(19,766)
Intangible assets	(54,550)	(59,628)
Operating lease right-of-use assets, net	(17,077)	(17,985)
Gain on interest rate swap	(2,400)	—
Other	(221)	(126)
Total deferred tax liabilities	<u>(91,756)</u>	<u>(99,320)</u>
Net deferred tax assets (liabilities)	<u>\$ 27,099</u>	<u>\$ (32,398)</u>

At June 30, 2023, the Company evaluated the need for a valuation allowance on deferred tax assets. In assessing whether the deferred tax assets are realizable, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the Company's past and recent operating performance and results, future taxable income including the reversal of existing deferred tax liabilities, and tax planning strategies. The Company continues to conclude that its net deferred tax assets in Switzerland are not more likely than not to be realized, and as such, continues to maintain a valuation allowance on such net deferred tax assets. The Company also continues to conclude that certain state research and development tax credits carryforwards are not more likely than not to be realized, and as such, continues to maintain a valuation allowance on these carryforwards. The Company

continues to conclude that all other deferred tax assets are more likely than not to be realized. Any future changes in the valuation allowance will impact the Company's income tax provision.

Fiscal 2023 includes the impact of the TCJA, which requires companies to capitalize and amortize domestic research and development expenditures over five years for tax purposes, and foreign research and development expenditures over fifteen years for tax purposes.

The Company has state research and development tax credit carryforwards of \$11,697, which will expire starting in fiscal year 2024 through fiscal year 2038.

The Company has acquired Federal net operating loss carryforwards of \$188, which have an unlimited carryforward period. The Company has acquired state net operating loss carryforwards of \$11,170, which will expire starting in fiscal year 2040. The Company has foreign net operating loss carryforwards of \$21,551, which will expire starting in fiscal year 2028 through fiscal year 2043. The Company maintains a valuation allowance on the majority of the foreign net operating loss carryforward.

The Company is subject to taxation in the U.S. (Federal and state) and various foreign jurisdictions that it operates in. The Company has established income tax reserves for potential additional income taxes based upon management's assessment, including recognition and measurement. All income tax reserves are analyzed quarterly, and adjustments are made as events occur and warrant modification.

The changes in the Company's income tax reserves for gross unrecognized income tax benefits, including interest and penalties, are summarized as follows:

	Fiscal Years	
	2023	2022
Unrecognized tax benefits, beginning of period	\$ 9,112	\$ 7,467
Increases for tax positions taken related to a prior period	—	160
Increases for tax positions taken during the current period	1,260	990
Decreases for tax positions taken by an acquired company	(2,679)	615
Decreases for tax positions taken related to a prior period	(191)	—
Decreases for settlements of previously recognized positions	(93)	(92)
Decreases as a result of a lapse of the applicable statute of limitations	(2,244)	(28)
Unrecognized tax benefits, end of period	<u>\$ 5,165</u>	<u>\$ 9,112</u>

The \$5,165 of unrecognized tax benefits as of June 30, 2023, if released, would reduce the Company's income tax provision.

The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes. The total amount of gross interest and penalties accrued was \$583 and \$488 as of June 30, 2023 and July 1, 2022, respectively, and the amount of interest and penalties recognized in fiscal 2023 and 2022 was \$96 and \$172, respectively.

The Company's major tax jurisdiction is the U.S. (Federal and state) and the open tax years are fiscal 2017 through 2023.

## L. Commitments and Contingencies

### LEGAL CLAIMS

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

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 ourselves 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.



On June 23 2021, Embedded Reps of America, LLC (“ERA”), a former sales representative, and James Mazzola, a principal of ERA, filed for binding arbitration related to the termination of ERA’s sales representative agreement raising multiple claims that aggregate to approximately \$9,000 in direct damages, with treble damages requested on a number of those claims. ERA was a sales representative of Themis when Themis was acquired by Mercury. The sales representative agreement provided for termination by either party upon 30 days written notice with ERA entitled to commissions for orders obtained by ERA with product shipment occurring prior to termination. The Company responded to the complaint in July 2021. An arbitration proceeding was held during September 2022 with final motions in October 2022, and oral arguments in November 2022. The arbitrator issued its final ruling in January 2023, awarding ERA \$72 in damages and fees.

On December 7, 2021, counsel for National Technical Systems, Inc. (“NTS”) sent the Company an environmental demand letter pursuant to Massachusetts General Laws Chapter 21E, Section 4A, and CERCLA 42 U.S.C. Section 9601, related to a site that NTS formerly owned at 533 Main Street, Acton, Massachusetts. NTS received a Notice of Responsibility from the Massachusetts Department of Environmental Protection (“MassDEP”) alleging trichloroethene, freon and 1,4-dioxane contamination in the groundwater emanating from NTS’s former site. NTS alleges in its demand letter that the operations of a predecessor company to Mercury that was acquired in the Company’s acquisition of the Microsemi carve-out business that once owned and operated a facility at 531 Main Street, Acton, Massachusetts contributed to the groundwater contamination. NTS is seeking payment from the Company of NTS’s costs for any required environmental remediation. In April 2022, the Company engaged in a meet and confer session with NTS pursuant to Massachusetts General Laws Chapter 21E, Section 4A to discuss the status of the environmental review performed by NTS and its licensed site professional. In addition in November 2021, the Company responded to a request for information from MassDEP regarding the detection of PFAS (per- and polyfluoroalkyl substances) in the Acton, Massachusetts Water District’s Conant public water supply wells near the former facility at 531 Main Street, Acton, Massachusetts at a level above the standard that MassDEP published for PFAS in October 2020. The Company has not been contacted by NTS or MassDEP since the dates discussed above. It is too early to determine what responsibility, if any, the Company may have for these environmental matters.

On June 19, 2023, the Board of Directors received notice of our former CEO’s resignation from the positions of President and Chief Executive Officer. The Board accepted the resignation effective June 24, 2023. In the notice, the former CEO claimed entitlement to certain benefits, including equity vesting, severance, and other benefits, under the change in control severance agreement (the “CIC Agreement”) because the former CEO had resigned with good reason during a potential change in control period. The Company disputes these claims and maintain that the former CEO resigned without good reason. The parties must submit any dispute under the CIC Agreement to binding arbitration. The Company intends to contest vigorously any claims under the CIC Agreement and believe that the Company has strong arguments that our former CEO’s claims lack merit. If the arbitrator rules in the Company’s favor, the Company may still need to pay the former CEO’s reasonable legal fees. If instead the arbitrator rules for the former CEO, the Company could be liable for up to approximately \$12,900, based on the closing price of our common stock on June 26, 2023, plus legal fees and expenses, for accelerated equity vesting, severance, and other benefits under the CIC Agreement. The Company categorically denies any wrongdoing or liability under the CIC Agreement, but the outcome of potential arbitration is inherently uncertain. Accordingly, it is reasonably possible that the Company will incur a liability in this matter and estimate the potential range of exposure from \$0 to \$12,900, plus costs and attorneys’ fees.

#### **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 June 30, 2023, the Company has entered into non-cancelable purchase commitments for certain inventory components and services used in its normal operations. The purchase commitments covered by these agreements are for less than one year and aggregate to \$127,134.

#### **OTHER**

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

## **M. Debt**

### **Revolving Credit Facilities**

On February 28, 2022, the Company amended the Revolver to increase and extend the borrowing capacity to a \$1,100,000, 5-year revolving credit line, with the maturity extended to February 28, 2027. As of June 30, 2023, the Company's outstanding balance of unamortized deferred financing costs was \$3,446, which is being amortized to Other (expense) income, net in the Consolidated Statements of Operations and Comprehensive (Loss) Income.

#### *Maturity*

The Revolver has a 5-year maturity and will mature on February 28, 2027.

#### *Interest Rates and Fees*

Borrowings under the Revolver bear interest, at the Company's option, at floating rates tied to Secured Overnight Financing Rate ("SOFR") or the prime rate plus an applicable percentage in the case of dollar denominated loans or, in the case of certain other currencies, such alternative floating rates as agreed. The interest rate applicable to outstanding loans has initially been set at SOFR plus 1.25% and in future fiscal quarters will be established pursuant to a pricing grid based on the Company's total net leverage ratio.

In addition to interest on the aggregate outstanding principal amounts of any borrowings, the Company will also pay a quarterly commitment fee on the unutilized commitments under the Revolver, which fee has initially been set at 0.20% per annum and in future fiscal quarters will be established pursuant to a pricing grid based on the Company's total net leverage ratio. The Company will also pay customary letter of credit and agency fees.

#### *Covenants and Events of Default*

The Revolver provides for customary negative covenants, including, among other things and subject to certain significant exceptions, restrictions on the incurrence of debt or guarantees, the creation of liens, the making of certain investments, loans and acquisitions, mergers and dissolutions, the sale of assets including capital stock of subsidiaries, the payment of dividends, the repayment or amending of junior debt, altering the business conducted, engaging in transactions with affiliates and entering into agreements limiting subsidiary dividends and distributions. The Revolver also requires the Company to comply with certain financial covenants, including a quarterly minimum consolidated cash interest charge ratio test and a quarterly maximum consolidated total net leverage ratio test.

The Revolver also provides for customary representations and warranties, affirmative covenants and events of default (including, among others, the failure to make required payments of principal and interest, certain insolvency events and an event of default upon a change of control). If an event of default occurs, the lenders under the Revolver will be entitled to take various actions, including the termination of unutilized commitments, the acceleration of amounts outstanding under the Revolver and all actions permitted to be taken by a secured creditor.

#### *Guarantees and Security*

The Company's obligations under the Revolver are guaranteed by certain of the Company's material domestic wholly-owned restricted subsidiaries (the "Guarantors"). The obligations of both the Company and the Guarantors are secured by a perfected security interest in substantially all of the assets of the Company and the Guarantors, in each case, now owned or later acquired, including a pledge of all of the capital stock of substantially all of the Company's domestic wholly-owned restricted subsidiaries and 65% of the capital stock of certain of its foreign restricted subsidiaries, subject in each case to the exclusion of certain assets and additional exceptions.

As of June 30, 2023, the Company was in compliance with all covenants and conditions under the Revolver and there were outstanding borrowings of \$511,500 against the Revolver as compared to \$451,500 for the fiscal year ended July 1, 2022, resulting in interest expense of \$25,159 and \$5,806 for fiscal years ended June 30, 2023 and July 1, 2022, respectively. The current borrowing capacity as defined under the Revolver as of June 30, 2023 is approximately \$865,000, of which we had outstanding borrowings against of \$511,500. There were outstanding letters of credit of \$963 as of June 30, 2023.

## N. Employee Benefit Plans

### *Pension Plan*

The Company maintains a 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”), since 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.

In fiscal 2021, the independent pension fund changed the conversion rate for accumulated retirement savings leading to a Plan amendment. The Company’s results contain the effects of this change in conversion rates by the independent pension fund as prior service costs. These prior service costs are amortized from AOCI to net periodic benefit costs over approximately nine years.

At June 30, 2023, the accumulated benefit obligation of the Plan equals the fair value of the Plan's assets. The Plan's funded status at June 30, 2023 and July 1, 2022 was a net liability of \$4,151 and \$4,660, respectively, which is recorded in other non-current liabilities on the Consolidated Balance Sheets. The Company recorded a net gain of \$142 and \$4,739 in AOCI during the fiscal years ended June 30, 2023 and July 1, 2022, respectively. Total employer contributions to the Plan were \$1,158 during the year ended June 30, 2023, and the Company's total expected employer contributions to the Plan during fiscal 2024 are \$1,122.

The following table reflects the total pension benefits expected to be paid from the Plan, which is funded from contributions by participants and the Company.

<b>Fiscal Year</b>	<b>Total</b>
2024	\$ 1,312
2025	1,367
2026	1,064
2027	1,433
2028	1,550
Thereafter (next 5 years)	8,905
<b>Total</b>	<b>\$ 15,631</b>

The following table outlines the components of net periodic benefit cost of the Plan for the fiscal years ended June 30, 2023 and July 1, 2022:

	Fiscal Years Ended	
	June 30, 2023	July 1, 2022
Service cost	\$ 1,068	\$ 1,405
Interest cost	463	83
Expected return on assets	(379)	(272)
Amortization of prior service cost	(203)	(190)
Amortization net of loss	—	5
Settlement loss recognized	(509)	—
Net periodic benefit cost	<u>\$ 440</u>	<u>\$ 1,031</u>

The following table reflects the related actuarial assumptions used to determine net periodic benefit cost of the Plan for the fiscal years ended June 30, 2023 and July 1, 2022:

	Fiscal Years Ended	
	June 30, 2023	July 1, 2022
Discount rate	1.95 %	1.70 %
Expected rate of return on Plan assets	1.95 %	1.70 %
Expected inflation	1.00 %	1.00 %
Rate of compensation increases	1.50 %	1.50 %

The calculation of the projected benefit obligation (“PBO”) utilized BVG 2020 Generational data for assumptions related to the mortality rates, disability rates, turnover rates, and early retirement ages.

The PBO represents the present value of Plan benefits earned through the end of the year, with an allowance for future salary and pension increases as well as turnover rates. The following table presents the change in projected benefit obligation for the periods presented:

	Fiscal Years Ended	
	June 30, 2023	July 1, 2022
Projected benefit obligation, beginning	\$ 25,509	\$ 28,614
Service cost	1,068	1,405
Interest cost	463	83
Employee contributions	1,439	2,606
Actuarial gain	(516)	(4,720)
Benefits paid	(246)	(1,444)
Settlements	(4,770)	—
Foreign exchange gain (loss)	1,763	(1,035)
Projected benefit obligation at end of year	<u>\$ 24,710</u>	<u>\$ 25,509</u>

The following table presents the change in Plan assets for the periods presented:

	Fiscal Years Ended	
	June 30, 2023	July 1, 2022
Fair value of Plan assets, beginning	\$ 20,849	\$ 18,807
Actual return on Plan assets	700	514
Company contributions	1,158	1,056
Employee contributions	1,439	2,606
Benefits paid	(246)	(1,444)
Settlements	(4,770)	—
Foreign exchange gain (loss)	1,429	(690)
Fair value of Plan assets at end of year	<u>\$ 20,559</u>	<u>\$ 20,849</u>

The following table presents the Company's reconciliation of funded status for the period presented:

	As of	
	June 30, 2023	July 1, 2022
Projected benefit obligation at end of year	\$ 24,710	\$ 25,509
Fair value of plan assets at end of year	20,559	20,849
Funded status	<u>\$ (4,151)</u>	<u>\$ (4,660)</u>

The fair value of Plan assets were \$20,559 at June 30, 2023. The Plan is denominated in a foreign currency, the Swiss Franc, which can have an impact on the fair value of Plan assets. The Plan was not subject to material fluctuations during the years ended June 30, 2023 or July 1, 2022. The Plan's assets are administered by an independent pension fund foundation (the "foundation"). As of June 30, 2023, the foundation has invested the assets of the Plan in various investments vehicles, including cash, real estate, equity securities, and bonds. The investments are measured at fair value using a mix of Level 1, Level 2 and Level 3 inputs.

#### 401(k) Plan

The Company maintains a qualified 401(k) plan (the "401(k) Plan") for its U.S. employees. Effective in the first quarter of fiscal 2023, the Company increased the rate of its matching contributions from 3% to 6% of participants' eligible annual compensation and changed the form of these contributions from cash to Company stock. The Company may also make optional contributions to the plan for any plan year at its discretion. The Company had \$2,705 of capitalized stock-based 401(k) matching compensation expense on the Consolidated Balance Sheet at June 30, 2023. Stock-based 401(k) matching compensation cost is measured based on the value of the matching amount and is recognized as expense as incurred. Expense recognized by the Company for matching contributions related to the 401(k) plan was \$15,665, \$7,603, and \$7,876 during the fiscal years ended June 30, 2023, July 1, 2022, and July 2, 2021, respectively.

## **O. Shareholders' Equity**

### **PREFERRED STOCK**

The Company is authorized to issue 1,000 shares of preferred stock with a par value of \$0.01 per share.

### **SHELF REGISTRATION STATEMENT**

On September 14, 2020, the Company 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. The Company has an unlimited amount available under the shelf registration statement. The Company intends to file a renewal of the S-3ASR in September 2023 upon the expiration of the three-year term of the current shelf registration statement.

### **STOCKHOLDER RIGHTS PLAN**

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

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

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

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

## **P. Stock-Based Compensation**

### **STOCK INCENTIVE PLANS**

The Board of Directors approved the Company's 2018 Stock Incentive Plan (the "2018 Plan") on July 23, 2018. The 2018 Plan became effective upon the approval of shareholders at the Company's annual meeting held on October 24, 2018. The aggregate number of shares authorized for issuance under the 2018 Plan is 6,782 shares, with an additional 710 shares rolled into the 2018 Plan that were available for future grant under the Company's 2005 Stock Incentive Plan, as amended and restated (the "2005 Plan") and increases of 3,000 and 2,000 shares approved by the Company's shareholders on October 28, 2020 and October 26, 2022, respectively. The 2018 Plan replaced the 2005 Plan. 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. There were 3,512 shares available for future grant under the 2018 Plan at June 30, 2023.

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

### **EMPLOYEE STOCK PURCHASE PLAN**

The 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. The number of shares issued under the ESPP during fiscal years 2023, 2022 and 2021 was 145, 115 and 101, respectively. Shares available for future purchase under the ESPP totaled 168 at June 30, 2023.

## STOCK AWARD ACTIVITY

	Non-Vested Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value
<b>Outstanding at July 2, 2021</b>	<b>1,013</b>	<b>\$ 70.77</b>
Granted	1,993	52.70
Vested	(477)	61.42
Forfeited	(224)	66.66
<b>Outstanding at July 1, 2022</b>	<b>2,305</b>	<b>\$ 57.47</b>
Granted	298	51.90
Vested	(738)	60.89
Forfeited	(526)	55.66
<b>Outstanding at June 30, 2023</b>	<b>1,339</b>	<b>\$ 54.45</b>

The total fair value of restricted stock awards vested during fiscal years 2023, 2022 and 2021 was \$25,587, \$25,533 and \$34,342, respectively.

Non-vested restricted stock awards are subject to the risk of forfeiture until the fulfillment of specified conditions. As of June 30, 2023, there was \$50,292 of total unrecognized compensation cost related to non-vested restricted stock awards granted under the Company's stock plans that is expected to be recognized over a weighted-average period of 1.8 years from June 30, 2023.

## STOCK-BASED COMPENSATION EXPENSE

The Company recognizes expense for its share-based payment plans in the Consolidated Statements of Operations and Comprehensive (Loss) Income in accordance with ASC 718. The Company had \$1,215 and \$1,229 of capitalized stock-based compensation expense on the Consolidated Balance Sheets as of June 30, 2023 and July 1, 2022, respectively. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the service period. The following table presents share-based compensation expenses from continuing operations included in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income:

	Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
Cost of revenues	\$ 2,926	\$ 2,161	\$ 2,037
Selling, general and administrative	18,335	30,116	21,866
Research and development	6,492	6,016	4,387
Stock-based compensation expense before tax	27,753	38,293	28,290
Income taxes	(7,216)	(10,339)	(7,355)
Stock-based compensation expense, net of income taxes	20,537	\$ 27,954	\$ 20,935

## Q. Operating Segment, Geographic Information and Significant Customers

Operating segments are defined as components of an enterprise evaluated regularly by the Company's chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company evaluated this internal reorganization under FASB ASC 280, *Segment Reporting* ("ASC 280") to determine whether this change has impacted the Company's single operating and reportable segment. The Company concluded this change had no effect given the CODM continues to evaluate and manage the Company on the basis of one operating and reportable segment. The Company utilized the management approach for determining its operating segment in accordance with ASC 280.

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

	U.S.	Europe	Asia Pacific	Eliminations	Total
<b>YEAR ENDED JUNE 30, 2023</b>					
Net revenues to unaffiliated customers	\$ 927,003	\$ 46,857	\$ 22	\$ —	\$ 973,882
Inter-geographic revenues	2,764	447	—	(3,211)	—
Net revenues	<u>\$ 929,767</u>	<u>\$ 47,304</u>	<u>\$ 22</u>	<u>\$ (3,211)</u>	<u>\$ 973,882</u>
Identifiable long-lived assets (1)	\$ 116,381	\$ 3,173	\$ —	\$ —	\$ 119,554
<b>YEAR ENDED JULY 1, 2022</b>					
Net revenues to unaffiliated customers	\$ 945,600	\$ 41,390	\$ 1,207	\$ —	\$ 988,197
Inter-geographic revenues	2,578	2,408	—	(4,986)	—
Net revenues	<u>\$ 948,178</u>	<u>\$ 43,798</u>	<u>\$ 1,207</u>	<u>\$ (4,986)</u>	<u>\$ 988,197</u>
Identifiable long-lived assets (1)	\$ 122,712	\$ 4,476	\$ 3	\$ —	\$ 127,191
<b>YEAR ENDED JULY 2, 2021</b>					
Net revenues to unaffiliated customers	\$ 876,479	\$ 47,119	\$ 398	\$ —	\$ 923,996
Inter-geographic revenues	1,561	1,985	—	(3,546)	—
Net revenues	<u>\$ 878,040</u>	<u>\$ 49,104</u>	<u>\$ 398</u>	<u>\$ (3,546)</u>	<u>\$ 923,996</u>
Identifiable long-lived assets (1)	\$ 123,009	\$ 5,509	\$ 6	\$ —	\$ 128,524

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

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 market for the periods presented:

	Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
Domestic (1)	\$ 865,216	\$ 861,125	\$ 795,988
International/Foreign Military Sales (2)	108,666	127,072	128,008
Total Net Revenue	<u>\$ 973,882</u>	<u>\$ 988,197</u>	<u>\$ 923,996</u>

(1) Domestic revenues consist of sales where the end user is within the U.S., as well as sales to prime defense contractor customers where the ultimate end user location is not defined.

(2) International/Foreign Military Sales consist of sales to U.S. prime defense contractor customers where the end user is outside the U.S., foreign military sales through the U.S. government, and direct sales to non-U.S. based customers intended for end use outside of the U.S.



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

	<b>Fiscal Years Ended</b>		
	<b>June 30, 2023</b>	<b>July 1, 2022</b>	<b>July 2, 2021</b>
Radar (1)	\$ 229,467	\$ 251,126	\$ 289,172
Electronic Warfare (2)	144,554	157,676	139,168
Other Sensor and Effector (3)	112,659	104,114	98,112
Total Sensor and Effector	486,680	512,916	526,452
C4I (4)	414,143	399,816	307,978
Other (5)	73,059	75,465	89,566
Total Net Revenues	<u>\$ 973,882</u>	<u>\$ 988,197</u>	<u>\$ 923,996</u>

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

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

	Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
Components (1)	\$ 197,180	\$ 167,333	\$ 176,234
Modules and Sub-assemblies (2)	200,281	167,242	156,557
Integrated Subsystems (3)	576,421	653,622	591,205
Total Net Revenues	<u>\$ 973,882</u>	<u>\$ 988,197</u>	<u>\$ 923,996</u>

(1) Components represent the basic building blocks of an electronic system. They generally perform a single function such as switching, storing or converting electronic signals. Some examples include power amplifiers and limiters, switches, oscillators, filters, equalizers, digital and analog converters, chips, MMICs (monolithic microwave integrated circuits) and memory and storage devices.

(2) Modules and sub-assemblies combine multiple components to serve a range of complex functions, including processing, networking and graphics display. Typically delivered as computer boards or other packaging, modules and sub-assemblies are usually designed using open standards to provide interoperability when integrated in a subsystem. Examples of modules and sub-assemblies include embedded processing boards, switched fabrics and boards for high-speed input/output, digital receivers, graphics and video, along with multi-chip modules, integrated radio frequency and microwave multi-function assemblies and radio frequency tuners and transceivers.

(3) Integrated subsystems bring components, modules and/or sub-assemblies into one system, enabled with software. Subsystems are typically, but not always, integrated within an open standards-based chassis and often feature interconnect technologies to enable communication between disparate systems. Spares and replacement modules and sub-assemblies are provided for use with subsystems sold by the Company. The Company's subsystems are deployed in sensor processing, aviation and mission computing and C4I applications.

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

	Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
Airborne (1)	\$ 506,264	\$ 506,549	\$ 416,877
Land (2)	157,505	158,782	182,591
Naval (3)	136,954	155,588	187,205
Other (4)	173,159	167,278	137,323
Total Net Revenues	<u>\$ 973,882</u>	<u>\$ 988,197</u>	<u>\$ 923,996</u>

(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.

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

	Fiscal Years Ended		
	June 30, 2023	July 1, 2022	July 2, 2021
RTX Corporation	14 %	14 %	19 %
Lockheed Martin Corporation	13 %	10 %	15 %
Northrop Grumman	11 %	*	*
U.S. Navy	*	14 %	12 %
	<u>38 %</u>	<u>38 %</u>	<u>46 %</u>

\* 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 years ended June 30, 2023, July 1, 2022 and July 2, 2021.

## **R. Derivatives**

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

On September 29, 2022, the Company terminated the initial Swap. At the time of termination, the fair value of the initial Swap was an asset of \$5,995. The Company received the cash settlement of \$5,995 and these proceeds are classified within Operating Activities of the Consolidated Statements of Cash Flows. The Company is amortizing the gain over the term of the Revolver and during the twelve months ended June 30, 2023, the Company amortized \$1,017 of the gain, which is included within Accumulated other comprehensive (loss) income.

Following the termination of the initial Swap, the Company entered a new Swap agreement (“the Swap”) on September 29, 2022 with JPMorgan. The Swap fixes \$300,000 of the total \$511,500 existing borrowings of outstanding borrowings under the Revolver at a rate of 3.79%. The Swap matures on February 28, 2027, coterminous with the maturity of the Revolver. As of June 30, 2023, the fair value of the hedge was an asset of \$3,523 and is included within Other non-current assets in the Company's Consolidated Balance Sheets.

The market risk associated with the Company's derivative instrument is the result of interest rate movements that are expected to offset the market risk of the underlying arrangement. The counterparty to the Swap is JPMorgan. Based on the credit ratings of the Company's counterparty as of June 30, 2023, nonperformance is not perceived to be a material risk. Furthermore, none of the Company's derivatives are subject to collateral or other security arrangements and none contain provisions that are dependent on the Company's credit ratings from any credit rating agency. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of the counterparty to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparty obligations under the contracts exceed the obligations of the Company to the counterparty. As a result of the above considerations, the Company does not consider the risk of counterparty default to be significant.

## **S. 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.

The Company has initiated several immediate cost savings measures that simplify the Company's organizational structure, facilitate clearer accountability, and align to the Company's priorities, including: (i) embedding the IMPACT value creation initiatives and execution into the Company's operations; (ii) streamlining organizational structure and removing areas of redundancy between corporate and divisional organizations; and (iii) reduce selling, general, and administrative headcount and rebalancing discretionary and third party spending to better align with the Company's priority areas. On July 20, 2023, the Company executed the plan to embed the IMPACT value creation initiatives into operations, and on August 9, 2023, the Company approved and initiated a workforce reduction that, together with the IMPACT related action, eliminates approximately 150 positions, resulting in expected restructuring charges of approximately \$9,000. These charges are for employee separation costs and will be classified as restructuring and other charges within the Company's Statement of Operations and Other Comprehensive Income for the fiscal quarter ending September 29, 2023.

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

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **(a) EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES**

We conducted an evaluation as of June 30, 2023 under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), and concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended, the “Exchange Act”) were effective as of June 30, 2023 and designed to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act

is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) **INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS**

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(c) **MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Executive Officer and Chief Financial Officer, management conducted an assessment of the effectiveness of our internal control over financial reporting as of June 30, 2023 based on the framework in Internal Control - Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that our internal control over financial reporting was effective as of June 30, 2023. The effectiveness of our internal control over financial reporting as of June 30, 2023 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report.

(d) **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of fiscal 2023 identified in connection with our Chief Executive Officer's and Chief Financial Officer's evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is incorporated herein by reference to our Proxy Statement for our 2023 Annual Meeting of Shareholders (the "Shareholders Meeting"), except that information required by this item concerning our executive officers appears in Part I, Item 4.1. of this Annual Report on Form 10-K.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to our Proxy Statement for the Shareholders Meeting.

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

The information required by this item is incorporated herein by reference to our Proxy Statement for the Shareholders Meeting.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated herein by reference to our Proxy Statement for the Shareholders Meeting.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Our independent registered public accounting firm is KPMG LLP, Boston, MA, Auditor Firm ID:185

The information required by this item is incorporated herein by reference to our Proxy Statement for the Shareholders Meeting.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

#### (a) FINANCIAL STATEMENTS, SCHEDULES AND EXHIBITS

The financial statements, schedule, and exhibits listed below are included in or incorporated by reference as part of this report:

##### 1. Financial statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2023 and July 1, 2022

Consolidated Statements of Operations and Comprehensive (Loss) Income for the fiscal years ended June 30, 2023, July 1, 2022, and July 2, 2021

Consolidated Statements of Shareholders' Equity for the fiscal years ended June 30, 2023, July 1, 2022, and July 2, 2021

Consolidated Statements of Cash Flows for the years ended June 30, 2023, July 1, 2022, and July 2, 2021

Notes to Consolidated Financial Statements

##### 2. Financial Statement Schedule:

#### II. Valuation and Qualifying Accounts

### ITEM 16. FORM 10-K SUMMARY

None.

**MERCURY SYSTEMS, INC.**

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS  
FOR FISCAL YEARS ENDED JUNE 30, 2023, JULY 1, 2022, and JULY 2, 2021  
(In thousands)

**Allowance for Credit Losses**

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS	REVERSALS	WRITE- OFFS	BALANCE AT END OF PERIOD
2023	\$ 2,074	\$ 408	\$ 15	\$ 1,132	\$ 1,335
2022	\$ 1,720	\$ 530	\$ 151	\$ 25	\$ 2,074
2021	\$ 1,451	\$ 514	\$ 199	\$ 46	\$ 1,720

**Deferred Tax Asset Valuation  
Allowance**

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS & EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
2023	\$ 15,349	\$ 906	\$ (1,470)	\$ —	\$ 14,785
2022	\$ 15,257	\$ 1,232	\$ (1,140)	\$ —	\$ 15,349
2021	\$ 11,264	\$ 2,035	\$ 1,958	\$ —	\$ 15,257

3. Exhibits:

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index on page 88, which is incorporated herein by reference.



## EXHIBIT INDEX

<u>ITEM NO.</u>	<u>DESCRIPTION OF EXHIBIT</u>
3.1.1	Articles of Organization (incorporated herein by reference to Exhibit 3.1.1 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2009)
3.1.2	Articles of Amendment (incorporated herein by reference to Exhibit 3.1.2 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2010)
3.1.3	Articles of Amendment (incorporated herein by reference to Exhibit 1 of the Company's registration statement on Form 8-A filed on December 15, 2005)
3.1.4	Articles of Amendment (incorporated herein by reference to Exhibit 3.1 of the Company's current report on Form 8-K filed on November 13, 2012)
3.1.5	Articles of Amendment (incorporated herein by reference to Exhibit 3.1 of the Company's current report on Form 8-K filed on June 30, 2015)
3.1.6	Articles of Amendment (incorporated herein by reference to Exhibit 3.1 of the Company's current report on Form 8-K filed on December 29, 2021)
3.2	Bylaws, amended and restated, effective as of October 26, 2022 (incorporated herein by reference to Exhibit 3.1 of the Company's current report on Form 8-K filed on October 28, 2022)
4.1	Form of Stock Certificate (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1/A filed on January 7, 1998)
4.2	Description of Registrant's Securities (incorporated herein by reference to Exhibit 4.2 of the Company's annual report on Form 10-K for the fiscal year ended July 3, 2020)
10.1*	1997 Employee Stock Purchase Plan, as amended and restated (incorporated herein by reference to Exhibit 10.1 of the Company's annual report on Form 10-K for the fiscal year ended July 1, 2022)
10.2*	Form of Indemnification Agreement between the Company and each of its current directors (incorporated herein by reference to Exhibit 10.4 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2009)
10.3*†	2018 Stock Incentive Plan, as amended and restated
10.4.1*	Form of Stock Option Agreement under the 2018 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2019)
10.4.2*	Form of Restricted Stock Award Agreement under the 2018 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2019)
10.4.3*	Form of Deferred Stock Award Agreement under the 2018 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2019)
10.4.4*	Form of Stock Option Agreement for performance stock options under the 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on September 28, 2007)
10.4.5*	Form of Performance-Based Restricted Stock Award Agreement under the 2018 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.5 of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2019)
10.5*	Form of Change in Control Severance Agreement between the Company and Non-CEO Executives (incorporated herein by reference to Exhibit 10.9.2 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2011)



<u>ITEM NO.</u>	<u>DESCRIPTION OF EXHIBIT</u>
10.6†	Compensation Policy for Non-Employee Directors
10.7.1	Credit Agreement, dated May 2, 2016, among the Company, the Guarantors party thereto, the Lenders party thereto and Bank of America, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on May 2, 2016)
10.7.2	Amendment No. 1 to Credit Agreement, dated June 27, 2017, among the Company, the Guarantors party thereto, the Lenders party thereto and Bank of America, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on June 27, 2017)
10.7.3	Amendment No. 3 to Credit Agreement, dated September 28, 2018, among the Company, the Guarantors party thereto, the Lenders party thereto and Bank of America, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on October 1, 2018)
10.7.4	Amendment No. 4 to Credit Agreement, dated February 28, 2022, among the Company, the Guarantors party thereto, the Lenders party thereto and Bank of America, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on February 28, 2022)
10.8*	Form of Severance Benefits Agreement between the Company and Non-CEO Executives (incorporated herein by reference to Exhibit 10.14 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2019)
10.10*	Letter Agreement, dated June 20, 2023, between the Company and David E. Farnsworth (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on June 29, 2023)
10.11*	Letter Agreement, dated September 15, 2021, between the Company and James M. Steverson (incorporated by reference to Exhibit 10.2 of the Company's quarterly report for the fiscal quarter ended September 30, 2022)
10.12*	Letter Agreement, dated September 17, 2021, between the Company and Charles R. Wells, IV (incorporated by reference to Exhibit 10.3 of the Company's quarterly report for the fiscal quarter ended September 30, 2022)
10.13	Voting Agreement, dated July 6, 2023, by and between Mercury Systems, Inc. and JANA Partners LLC (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on July 6, 2023)
19.1†	Insider Trading Policy
21.1†	Subsidiaries of the Company
23.1†	Consent of KPMG LLP
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

**ITEM NO.**      **DESCRIPTION OF EXHIBIT**

101†	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheet, (ii) Consolidated Statement of Operations, (iii) Consolidated Statement of Shareholders' Equity, (iv) Consolidated Statement of Cash Flows, and (v) Notes to Consolidated Financial Statements
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	Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Identifies a management contract or compensatory plan or arrangement in which an executive officer or director of the Company participates.

† Filed with this Form 10-K.

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

## CERTIFICATION

I, William L. Ballhaus, certify that:

1. I have reviewed this annual report on Form 10-K 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: August 15, 2023

/s/ WILLIAM L. BALLHAUS

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William L. Ballhaus

PRESIDENT AND CHIEF EXECUTIVE OFFICER  
[PRINCIPAL EXECUTIVE OFFICER]

## CERTIFICATION

I, David E. Farnsworth, certify that:

1. I have reviewed this annual report on Form 10-K 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: August 15, 2023

/s/ DAVID E. FARNSWORTH

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David E. Farnsworth

EXECUTIVE VICE PRESIDENT,  
CHIEF FINANCIAL OFFICER, AND TREASURER  
[PRINCIPAL FINANCIAL OFFICER]

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 Annual Report of Mercury Systems, Inc. (the “Company”) on Form 10-K for the fiscal year ended June 30, 2023 as filed with the Securities and Exchange Commission (the “Report”), we, William L. Ballhaus, President and Chief Executive Officer of the Company, and David Farnsworth, 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: August 15, 2023

/s/ WILLIAM L. BALLHAUS

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**William L. Ballhaus**  
**PRESIDENT AND CHIEF EXECUTIVE OFFICER**

/s/ DAVID E. FARNSWORTH

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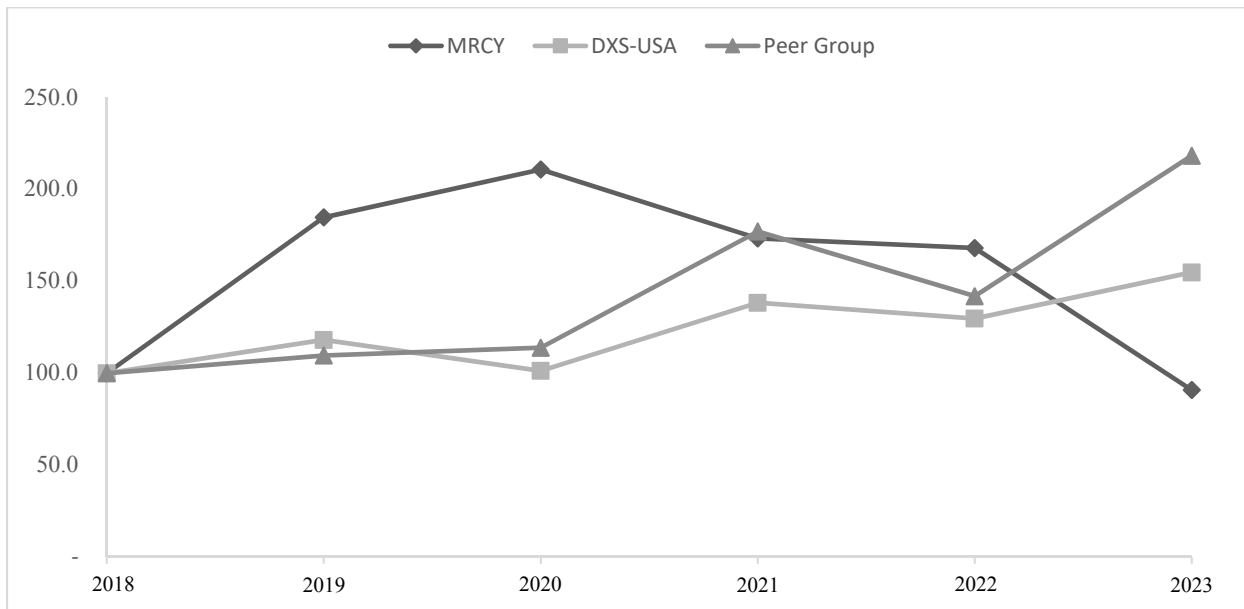
**David E. Farnsworth**  
**EXECUTIVE VICE PRESIDENT,**  
**CHIEF FINANCIAL OFFICER, AND TREASURER**

## Cumulative Total Return

The following graph compares the cumulative five-year total return on our common stock through June 30, 2023 to: (i) the Spade Defense Index and (ii) a peer group of 21 companies. The graph and table assume that \$100 was invested at the beginning of the period in each of our common stock, the Spade Defense Index, and a peer group and that dividends, if any, were reinvested. The comparisons in the graph are required by the SEC, based upon historical data, and are not intended to forecast or be indicative of possible future performance our of common stock. The peer group consists of the following companies:

3D Systems Corporation	Diodes Incorporated	Novanta Inc.
Aerojet Rocketdyne Holdings, Inc.	FormFactor, Inc.	Onto Innovation Inc.
AeroVironment, Inc.	Infinera Corporation	OSI Systems, Inc.
Axcelis Technologies, Inc.	iRobot Corporation	RBC Bearings Incorporated
Belden Inc.	Kaman Corporation	Rogers Corporation
BWX Technologies, Inc.	Kratos Defense & Security Solutions, Inc.	Viasat, Inc.
Curtiss-Wright Corporation	Leonardo DRS, Inc.	
MACOM Technology Solutions Holdings, Inc.		

### Comparison of Five-Year Cumulative Total Return Among Mercury Systems, Inc., the Spade Defense Index, and the Peer Group



<u>Measurement Point</u>	<u>Mercury Systems, Inc.</u>	<u>Spade Defense Index</u>	<u>Peer Group</u>
6/29/2018	100.00	100.00	100.00
6/28/2019	184.8	118.2	109.7
7/2/2020	210.9	101.3	113.9
7/2/2021	173.4	138.4	177.2
7/1/2022	168.2	129.8	142.0
6/30/2023	90.9	154.9	218.4

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## DIRECTORS & MANAGEMENT

### EXECUTIVE OFFICERS

**William L. Ballhaus**  
President and  
Chief Executive Officer

**Christopher C. Cambria**  
Executive Vice President,  
General Counsel  
and Secretary

**Allen Couture**  
Executive Vice President,  
Execution Excellence

**David E. Farnsworth**  
Executive Vice President,  
Chief Financial Officer  
and Treasurer

**Christine Fox Harbison**  
Executive Vice President  
and Chief Growth Officer

**James M. Stevison**  
Executive Vice President  
and President,  
Mission Systems

**Charles R. Wells, IV**  
Executive Vice President and  
President, Microelectronics

### BOARD OF DIRECTORS

**William K. O'Brien**  
Chairman of the Board,  
Former Chairman and CEO,  
Enterasys Networks

**William L. Ballhaus**  
President and  
Chief Executive Officer  
Mercury Systems, Inc.

**Orlando P. Carvalho**  
Former Executive Vice President  
Aeronautics, Lockheed Martin

**Gerard J. DeMuro**  
Co-CEO, Eve Air Mobility

**Lisa S. Disbrow**  
Under Secretary  
of the U.S. Air Force (Retired)

**Mary Louise Krakauer**  
Former Executive,  
Dell and EMC

**Roger A. Krone**  
Former Chairman  
and CEO, Leidos

**Howard L. Lance**  
Former President and CEO,  
Maxar Technologies, Inc.  
and Harris Corporation

**Barry R. Nearhos**  
Former Managing Partner,  
PricewaterhouseCoopers

**Scott Ostfeld**  
Managing Partner and  
Portfolio Manager,  
JANA Partners

**Debora A. Plunkett**  
Federal Senior Executive,  
National Security Agency (Retired)

### CORPORATE OFFICE

MERCURY SYSTEMS, INC.  
50 Minuteman Road  
Andover, MA 01810  
978.256.1300 866.627.6951  
ir.mrcy.com NASDAQ: MRCY

### AUDITOR

KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

### TRANSFER AGENT AND REGISTRAR

Computershare Investor Services  
P.O. Box 43006  
Providence, RI 02940-3078  
877.373.6374  
computershare.com/investor

### COMMON STOCK

Mercury Systems, Inc., common stock  
is traded on the Nasdaq Global Select  
Market under the symbol MRCY.

### STOCKHOLDER INFORMATION

The Company's Form 10-K and other  
published information is available on  
request, free of charge, by writing or  
calling Investor Relations as listed below.

### INVESTOR RELATIONS

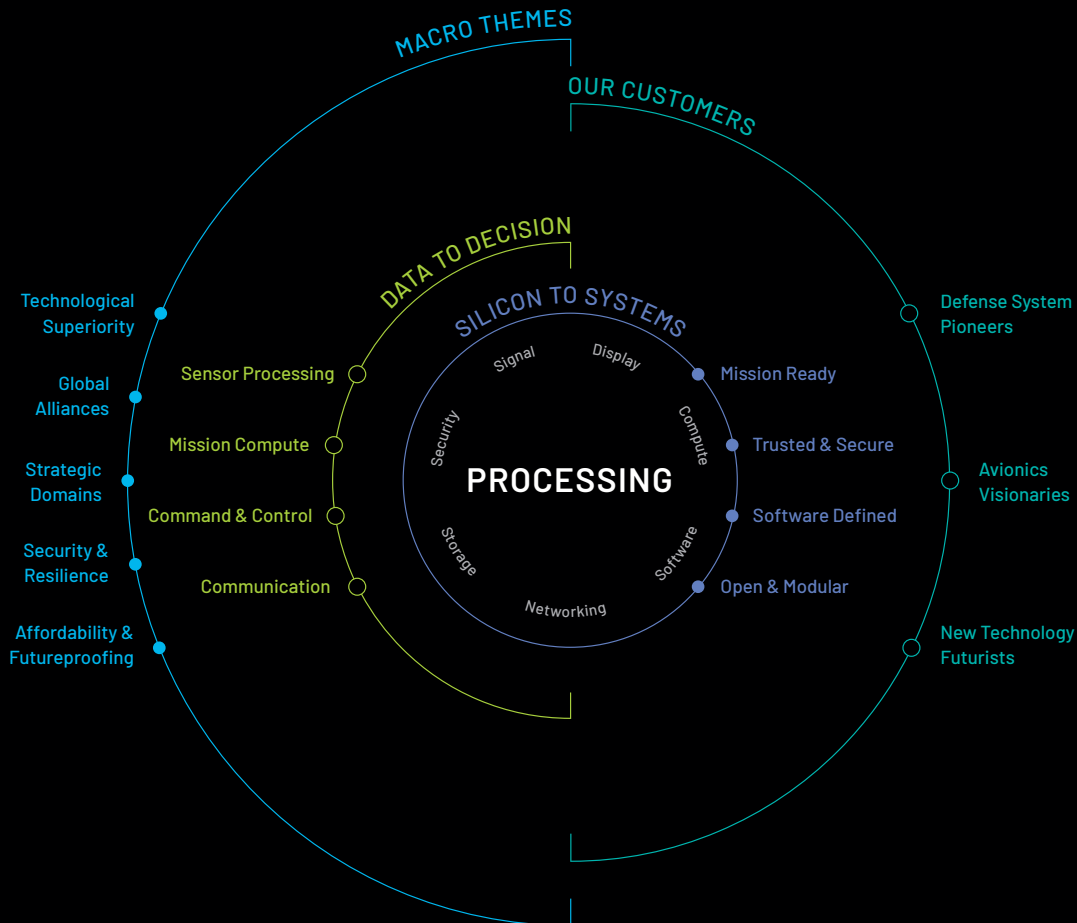
Mercury Systems, Inc.  
50 Minuteman Road  
Andover, MA 01810  
866.411.MRCY

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Bill Ballhaus portrait courtesy of 22Gates Photography.

# THE MERCURY PROCESSING PLATFORM

The end-to-end processing power that serves  
the most critical A&D missions.



## MERCURY SYSTEMS - INNOVATION THAT MATTERS®

Mercury Systems is a technology company that pushes processing power to the tactical edge, making the latest commercial technologies profoundly more accessible for today's most challenging aerospace and defense missions. From silicon to system scale, Mercury enables customers to accelerate innovation and turn data into decision superiority. Mercury is headquartered in Andover, Massachusetts, and has 24 locations worldwide.