MERCURY SYSTEMS INC
Form 10-Q
November 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 0-23599

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

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

978-256-1300
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Shares of Common Stock outstanding as of October 31, 2018: 48,401,205 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
MERCURY SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	September 30, 2018	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 72,869	$66,521
Accounts receivable, net of allowance for doubtful accounts of $202 and $359 at September 30, 2018 and June 30, 2018, respectively	113,920	104,040
Unbilled receivables and costs in excess of billings	39,977	39,774
Inventory	121,156	108,585
Prepaid income taxes	6,736	3,761
Prepaid expenses and other current assets	9,521	9,062
Total current assets	364,179	331,743
Property and equipment, net	50,829	50,980
Goodwill	520,589	497,442
Intangible assets, net	183,606	177,904
Other non-current assets	7,771	6,411
Total assets	$ 1,126,974	$1,064,480
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$ 25,726	$21,323
Accrued expenses	15,144	16,386
Accrued compensation	20,281	21,375
Deferred revenues and customer advances	21,605	12,596
Total current liabilities	82,756	71,680
Deferred income taxes	13,266	13,635
Income taxes payable	2,879	998
Long-term debt	240,000	195,000
Other non-current liabilities	11,452	11,276
Total liabilities	350,353	292,589
Commitments and contingencies (Note M)		
Shareholders’ equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value; 85,000,000 shares authorized; 47,168,936 and 46,924,238 shares issued and outstanding at September 30, 2018 and June 30, 2018, respectively	472	469
Additional paid-in capital	587,788	590,163
Retained earnings	187,447	179,968
Accumulated other comprehensive income	914	1,291
Total shareholders’ equity	776,621	771,891
Total liabilities and shareholders’ equity	$ 1,126,974	$1,064,480

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

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

	Three Months Ended September 30,	
	2018	2017
Net revenues	$144,056	$106,069
Cost of revenues	82,473	55,395
Gross margin	61,583	50,674
Operating expenses:		
Selling, general and administrative	24,741	20,568
Research and development	14,948	13,742
Amortization of intangible assets	7,181	5,637
Restructuring and other charges	504	95
Acquisition costs and other related expenses	399	261
Total operating expenses	47,773	40,303
Income from operations	13,810	10,371
Interest income	66	19
Interest expense	(2,259)	(3)
Other expense, net	(1,009)	(815)
Income before income taxes	10,608	9,572
Tax provision (benefit)	3,129	(8,381)
Net income	$7,479	$17,953
Basic net earnings per share	$0.16	$0.39
Diluted net earnings per share	$0.16	$0.38
Weighted-average shares outstanding:		
Basic	47,048	46,504
Diluted	47,697	47,489
Comprehensive income:		
Net income	$7,479	$17,953
Foreign currency translation adjustments	(362)	(78)
Pension benefit plan, net of tax	(15)	30
Total other comprehensive income, net of tax	(377)	(48)
Total comprehensive income	$7,102	$17,905

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

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

	Three Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$7,479	$17,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	11,546	9,337
Stock-based compensation expense	4,679	4,621
Benefit for deferred income taxes	(381)	(4,186)
Other non-cash items	1,222	378
Changes in operating assets and liabilities, net of effects of businesses acquired:		
Accounts receivable, unbilled receivables, and costs in excess of billings	(5,891)	(7,810)
Inventory	(4,553)	(11,149)
Prepaid income taxes	(2,977)	(657)
Prepaid expenses and other current assets	68	(718)
Other non-current assets	88	(595)
Accounts payable, accrued expenses, and accrued compensation	(2,025)	12,841
Deferred revenues and customer advances	8,828	(627)
Income taxes payable	1,873	(11,279)
Other non-current liabilities	73	(81)
Net cash provided by operating activities	20,029	8,028
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(46,273)	(6,000)
Purchases of property and equipment	(3,727)	(3,628)
Other investing activities	—	(374)
Net cash used in investing activities	(50,000)	(10,002)
Cash flows from financing activities:		
Borrowings under credit facilities	45,000	—
Payments for retirement of common stock	(6,812)	(13,548)
Payments of deferred financing and offering costs	(1,851)	—
Net cash provided by (used in) financing activities	36,337	(13,548)
Effect of exchange rate changes on cash and cash equivalents	(18)	(41)
Net increase (decrease) in cash and cash equivalents	6,348	(15,563)
Cash and cash equivalents at beginning of period	66,521	41,637
Cash and cash equivalents at end of period	$72,869	$26,074
Cash paid during the period for:		
Interest	$3,442	$3
Income taxes	$4,291	$7,851

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

MERCURY SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except per share data)
(Unaudited)

A. Description of Business

Mercury Systems, Inc. (the “Company” or “Mercury”) is a leading commercial provider of secure sensor and safety critical processing subsystems. Optimized for customer and mission success, its solutions power a wide variety of critical defense and intelligence programs. Headquartered in Andover, Massachusetts, it is pioneering a next-generation defense electronics business model specifically designed to meet the industry's current and emerging technology and business needs. The Company delivers affordable innovative solutions, rapid time-to-value and service and support primarily to defense prime contractor customers. The Company's products and solutions have been deployed in more than 300 programs with over 25 different defense prime contractors. Key programs include Aegis, Patriot, Surface Electronic Warfare Improvement Program (“SEWIP”), Gorgon Stare, Predator, F-35, Reaper, F-16 SABR, E2D Hawkeye, Paveway, Filthy Buzzard, PGK, ProVision, P1, AIDEWS, CDS, and Win-T. The Company's organizational structure allows it to deliver capabilities that combine technology building blocks and deep domain expertise in the aerospace and defense sector.

B. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared by the Company in accordance with Generally Accepted Accounting Principles ("GAAP") in the United States of America for interim financial information and with the instructions to the Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted pursuant to those rules and regulations; however, in the opinion of management the financial information reflects all adjustments, consisting of adjustments of a normal recurring nature, necessary for fair presentation. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the fiscal year ended June 30, 2018 which are contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on August 16, 2018. The results for the three months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full fiscal year.

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

USE OF ESTIMATES

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

BUSINESS COMBINATIONS

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

FOREIGN CURRENCY

Local currencies are the functional currency for the Company’s subsidiaries in Switzerland, the United Kingdom, France, Japan, Spain and Canada. The accounts of foreign subsidiaries are translated using exchange rates in effect at period-end for assets and liabilities and at average exchange rates during the period for results of operations. The related translation adjustments are reported in accumulated other comprehensive 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 Income and were immaterial for all periods presented.

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REVENUE RECOGNITION

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers, ("ASC 606"), which was adopted on July 1, 2018, using the retrospective method. Revenue is recognized in accordance with the five step model set forth by 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. The adoption of ASC 606 did not have a material impact to the amount or timing of revenue recognition related to the Company's legacy accounting methods for contracts including ship and bill, multiple-deliverable, and contract accounting. Such adoption did not have a material impact, individually or in the aggregate, to any amounts in the Company's Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Shareholders' Equity or Consolidated Statements of Cash Flows. Refer to Note L for disaggregation of revenue for the period.

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 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.

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.

The Company is a leading provider of secure sensor and safety critical processing subsystems. Revenues are derived from the sales of products that are grouped into one of the following three categories: (i) components, (ii) modules and sub-assemblies, and (iii) integrated subsystems. The Company also generates revenues from the performance of services, including analyst services and 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, i.e., if a good or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer. 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 determines 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 forecasts 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 relate to contracts that include a combination of components, modules and sub-assemblies, integrated subsystems and related system integration or other services. Contracts with distinct performance obligations recognized at a point in time, with or without an allocation of the transaction price, totaled 79% and 82% of revenues for the three months ended September 30, 2018 and 2017, 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 shipment (for goods) or completion (for services).

The Company engages in long-term contracts for development, production and services activities and recognizes revenue for performance obligations over time. These long-term contracts involve the design, development, manufacture, or modification of complex modules and sub-assemblies or integrated subsystems and related services. 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 long-term 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 labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; 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 reimburseable 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 elected to use a practical expedient permitted by ASC 606 whereby revenue is recognized in the amount for which the Company has a right to invoice the customer based on the control transferred to the customer. For all types of contracts, the Company recognizes anticipated contract losses as soon as they become known and estimable.

Accounting for long-term contracts requires significant judgment relative to estimating total contract revenues and costs, including assumptions relative to the length of time to complete the contract, the nature and complexity of the work to be performed, anticipated increases in wages and prices as well as availability for subcontractor services and materials. The Company's estimates are based upon the professional knowledge and experience of its engineers, program managers and other personnel, who review each long-term 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 long-term contracts over time was 21% and 18% of total revenues for the three months ended September 30, 2018 and 2017, respectively.

The Company 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 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 long-term 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. 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).

ACCOUNTS RECEIVABLE

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

COSTS TO OBTAIN AND FULFILL A CONTRACT

The Company has elected to use a practical expedient available under ASC 606 whereby sales commissions are expensed as incurred for contracts where the amortization period would have been one year or less. The Company has not deferred sales commissions for contracts where the amortization period is greater than one year because such amounts that would qualify for deferral are not significant.
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 $39,977 and $39,774 as of September 30, 2018 and June 30, 2018. These balances remained consistent period over period. The contract liability balances were $22,468 and $13,425 as of September 30, 2018 and June 30, 2018. The increase was driven primarily by a significant milestone billing on a classified missile program.
Revenue recognized for the three month period ended September 30, 2018 that was included in the contract liability balance at the beginning of the year was $7,366.

REMAINING PERFORMANCE OBLIGATIONS

The Company has elected to use a practical expedient available under ASC 606 whereby contracts with original expected durations of one year or less are excluded from the remaining performance obligations, while these contracts are included within backlog. 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 September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was $166,880. The Company expects to recognize approximately 64% of its remaining performance obligations as revenue in the next 12 months and the balance thereafter.

WEIGHTED-AVERAGE SHARES

Weighted-average shares were calculated as follows:

	Three Months Ended September 30,	
	2018	2017
Basic weighted-average shares outstanding	47,048	46,504
Effect of dilutive equity instruments	649	985
Diluted weighted-average shares outstanding	47,697	47,489

Equity instruments to purchase 208 and 104 shares of common stock were not included in the calculation of diluted net earnings per share for the three months ended September 30, 2018, and 2017, respectively, because the equity instruments were anti-dilutive.

C. Acquisitions

GERMANE SYSTEMS AQUISITION

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

Based in Chantilly, Virginia, Germane is an industry leader in the design, development and manufacturing of rugged servers, computers and storage systems for command, control and information ("C2I") applications. The Company acquired Germane for an all cash purchase price of $45,000, subject to net working capital and net debt adjustments. The Company funded the acquisition with borrowings obtained under its existing revolving credit facility.

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

	Amounts
Consideration transferred	
Cash paid at closing	$46,973
Less cash acquired	(193)
Net purchase price	$46,780
Estimated fair value of tangible assets acquired and liabilities assumed	
Cash	$193
Accounts receivable	4,277
Inventory	8,575
Fixed assets	867
Other current and non-current assets	596
Accounts payable	(3,146)
Accrued expenses	(914)
Other current and non-current liabilities	(232)