

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarter ended March 31, 2002

Commission File Number 0-23599

MERCURY COMPUTER 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.)

199 RIVERNECK ROAD

01824

CHELMSFORD, MA

(Zip Code)

(Address of principal executive offices)

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

Number of shares outstanding of the issuer's classes of common stock as of
April 30, 2002:

Class

Number of Shares Outstanding

Common Stock, par value \$.01 per share

21,634,523

MERCURY COMPUTER SYSTEMS, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

MERCURY COMPUTER SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2002 (Unaudited)	June 30, 2001
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,273	\$ 13,307
Marketable securities	65,729	54,135
Trade accounts receivable, net of allowances of \$793 and \$600 at March 31, 2002 and June 30, 2001, respectively	20,325	34,928
Inventory	15,025	12,840
Deferred income taxes, net	3,206	3,206
Prepaid expenses and other current assets	4,956	5,341
Prepaid income taxes	6,713	--
Total current assets	----- 132,227	----- 123,757
Marketable securities	14,156	28,166
Property and equipment, net	27,998	28,793
Deferred income taxes, net	2,207	2,207
Other assets	849	661
Total assets	----- \$ 177,437 =====	----- \$183,584 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,334	\$ 6,638
Accrued expenses	3,464	4,263
Accrued compensation	6,913	7,427
Capital lease obligations - short term portion	139	292
Notes payable - short term portion	621	621
Billings in excess of revenues and customer advances	1,087	1,060
Income taxes payable	--	2,065
Total current liabilities	----- 18,558	----- 22,366
Deferred compensation	542	337
Capital lease obligations	3	108
Notes payable obligations	12,520	12,985
Commitments and contingencies (Note I)		
Stockholders' equity:		
Common stock, \$.01 par value; 65,000,000 shares authorized; 22,137,803 and 21,811,738 shares issued at March 31, 2002 and June 30, 2001, respectively; 21,618,803 and 21,811,738 shares outstanding at March 31, 2002 and June 30, 2001, respectively	221	218
Additional paid-in capital	47,980	42,575
Treasury stock, at cost, 519,000 shares at March 31, 2002	(17,545)	--
Retained earnings	114,962	104,525
Accumulated other comprehensive income	196	470
Total stockholders' equity	----- 145,814	----- 147,788
Total liabilities and stockholders' equity	----- \$ 177,437 =====	----- \$183,584 =====

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

MERCURY COMPUTER SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except per share data)

	Three months ended March 31,		Nine months ended March 31,	
	2002	2001	2002	2001
Net revenue	\$ 34,864	\$ 46,953	\$ 107,160	\$ 131,747
Cost of revenue	13,448	15,274	36,937	42,587
	21,416	31,679	70,223	89,160
Gross profit				
Operating expenses:				
Selling, general and administrative	11,654	12,607	36,027	37,509
Research and development	8,752	8,047	25,069	22,744
	20,406	20,654	61,096	60,253
Total operating expenses				
Income from operations	1,010	11,025	9,127	28,907
Interest income	917	995	3,164	2,927
Interest expense	(244)	(263)	(745)	(807)
Gain on sales of division and joint venture	1,678	1,600	4,878	4,800
Equity loss in joint venture	--	(1,356)	(1,752)	(3,067)
Other income (expense), net	10	(323)	(176)	(469)
	3,371	11,678	14,496	32,291
Income before income taxes				
Provision for income taxes	721	3,737	4,059	10,333
	2,650	7,941	10,437	21,958
Net income	\$ 2,650	\$ 7,941	\$ 10,437	\$ 21,958
	=====	=====	=====	=====
Net income per share:				
Basic	\$ 0.12	\$ 0.37	\$ 0.48	\$ 1.02
	=====	=====	=====	=====
Diluted	\$ 0.12	\$ 0.34	\$ 0.45	\$ 0.95
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic	21,804	21,648	21,884	21,515
	=====	=====	=====	=====
Diluted	22,924	23,286	23,192	23,016
	=====	=====	=====	=====

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

MERCURY COMPUTER SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Nine months ended March 31,	
	2002	2001
Cash flows provided from operating activities:		
Net income	\$ 10,437	\$ 21,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,751	4,487
Gain on sales of division and joint venture	(4,878)	(4,800)
Equity loss in joint venture	1,752	3,067
Provision for doubtful accounts	200	50
Tax benefit from disqualified dispositions	1,403	1,710
Stock option compensation expense	630	392
Other non-cash items	--	12
Changes in operating assets and liabilities:		
Trade operating accounts receivable	14,404	(5,822)
Inventory	(2,189)	344
Prepaid expenses and other current assets	394	(2,315)
Other assets	(289)	(983)
Accounts payable	(305)	(3,227)
Accrued expenses and compensation	(1,888)	2,981
Deferred compensation	205	292
Billings in excess of revenues and customer advances	32	1,118
Prepaid income taxes	(8,778)	225
	15,881	19,489
Cash flows from investing activities:		
Purchases of marketable securities	(55,855)	(88,126)
Sales of marketable securities	57,995	73,991
Purchases of property and equipment	(3,945)	(5,089)
Proceeds from sale of division	4,800	4,800
Investments in joint venture	(1,000)	(1,000)
	1,995	(15,424)
Cash flows from financing activities:		
Proceeds from employee stock purchase plan and the exercise of stock options	3,377	2,420
Payments of principal under notes payable	(464)	(431)
Principal payments under capital lease obligations	(257)	(466)
Purchases of treasury stock	(17,545)	--
	(14,889)	1,523
Net increase in cash and cash equivalents	2,987	5,588
Effect of exchange rate change on cash and cash equivalents	(21)	(78)
Cash and cash equivalents at beginning of period	13,307	5,850
	\$ 16,273	\$ 11,360
Cash paid during the period for:		
Interest	\$ 745	\$ 807
Income taxes	11,132	9,805

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

MERCURY COMPUTER SYSTEMS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (TABLES IN THOUSANDS EXCEPT, PER SHARE DATA)

A. BASIS OF PRESENTATION

These consolidated financial statements are unaudited and should be read in conjunction with the Company's financial statements and footnotes included in the Company's Form 10-K for the year ended June 30, 2001, filed with the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the consolidated financial position, results of operations and cash flows of Mercury Computer Systems, Inc. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

B. INVENTORY

	March 31, 2002 -----	June 30, 2001 -----
Raw materials	\$ 8,094	\$ 6,109
Work in process	3,824	4,301
Finished goods	3,107	2,430
	-----	-----
Total	\$ 15,025 =====	\$ 12,840 =====

C. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share:

	Three Months Ended March 31, -----		Nine Months Ended March 31, -----	
	2002 -----	2001 -----	2002 -----	2001 -----
Net income	\$ 2,650 =====	\$ 7,941 =====	\$10,437 =====	\$21,958 =====
Shares used in computation:				
Weighted average common shares outstanding used in computation of basic net income per share	21,804	21,648	21,884	21,515
Dilutive effect of stock options	1,120	1,638	1,308	1,501
	-----	-----	-----	-----
Shares used in computation of diluted net income per share	22,924 =====	23,286 =====	23,192 =====	23,016 =====
Basic net income per share	\$ 0.12 =====	\$ 0.37 =====	\$ 0.48 =====	\$ 1.02 =====
Diluted net income per share	\$ 0.12 =====	\$ 0.34 =====	\$ 0.45 =====	\$ 0.95 =====

Options to purchase 839,592 and 216,717 shares of common stock outstanding during the three months ended March 31, 2002 and 2001, respectively, were not included in the calculation of diluted net income per share because the option exercise prices were greater than the average market prices of the common stock during the period. Options to purchase 467,669 and 209,023 shares of common stock outstanding during the nine months ended March 31, 2002 and 2001, respectively, were not included in the calculation of diluted net income per share because the option exercise prices were greater than the average market prices of the common stock during the period.

D. NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. The provisions of SFAS 142 are required to be adopted for fiscal years beginning after December 15, 2001; however, the Company has, as permitted, adopted SFAS 142 early, as of July 1, 2001. The adoption of SFAS 142 had no impact on the Company's financial position or results of operations since the Company did not have any goodwill or other intangible assets from business.

combinations as of that date.

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." SFAS 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS 143 is effective for financial statements for fiscal years beginning after June 15, 2002. Management does not expect SFAS 143 to have a material impact on the Company's financial position or results of operations.

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 requires one method of accounting for long-lived assets to be disposed of by sale. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. Management does not expect SFAS 144 to have a material impact on the Company's financial position or results of operations.

E. COMPREHENSIVE INCOME

Mercury's total comprehensive income was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
Net income	\$ 2,650	\$ 7,941	\$ 10,437	\$ 21,958
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(24)	(51)	--	(175)
Change in unrealized gain (loss) on marketable securities	(286)	215	(199)	418
Other comprehensive income (loss)	(310)	164	(199)	243
Total comprehensive income	\$ 2,340	\$ 8,105	\$ 10,238	\$ 22,201

F. OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise evaluated regularly by the Company's senior management in deciding how to allocate resources and assessing performance. The Company has six principal operating segments: North American Defense, International Defense, Medical Imaging, Commercial Businesses, Wireless Communications, and Research and Development. These operating segments were determined based upon the nature of the products offered to customers, the market characteristics of each operating segment, and the Company's management structure. The Company has five reportable segments: North American Defense segment, Medical Imaging segment, Commercial segment, Other Defense and Commercial segment, and Research and Development segment. The Other Defense and Commercial segment is comprised of International Defense, Wireless Communications, and Other Commercial businesses unrelated to the defense or medical businesses. These operating segments are not separately reported, as they do not meet any of SFAS 131's quantitative thresholds.

The accounting policies of the reportable business segments are the same as those described in "Note B: Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended June 30, 2001. The following table provides reportable operating segment information for the three-month and nine-month periods ended March 31, 2002 and 2001:

	North American Defense Segment	Medical Imaging Segment	Commercial Segment	Other Defense and Commercial Segment	Research and Development Segment	Corporate	Consolidated
	-----	-----	-----	-----	-----	-----	-----
THREE MONTHS ENDED MARCH 31, 2002:							
Sales to unaffiliated customers	\$ 13,751	\$ 14,274	\$ 2,771	\$ 4,068	--	--	\$ 34,864
Income (loss) before taxes (1)	6,796	7,094	819	(75)	(7,251)	(4,012)	3,371
Depreciation/amort. expense	74	28	11	48	525	760	1,446
THREE MONTHS ENDED MARCH 31, 2001:							
Sales to unaffiliated customers	\$ 29,067	\$ 10,266	\$ 4,640	\$ 2,980	--	--	\$ 46,953
Income (loss) before taxes (1)	20,412	2,863	2,227	668	(8,046)	(6,446)	11,678
Depreciation/amort. expense	198	19	4	33	440	817	1,511
NINE MONTHS ENDED MARCH 31, 2002:							
Sales to unaffiliated customers	\$ 53,331	\$ 34,812	\$ 7,731	\$ 11,286	--	--	\$107,160
Income (loss) before taxes (1)	32,605	16,009	1,996	(1,257)	(20,721)	(14,136)	14,496
Depreciation/amort. expense	224	87	32	170	1,517	2,721	4,751
NINE MONTHS ENDED MARCH 31, 2001:							
Sales to unaffiliated customers	\$ 81,072	\$ 29,583	\$ 12,636	\$ 8,456	--	--	\$131,747
Income (loss) before taxes (1)	55,053	9,121	6,587	2,002	(22,744)	(17,728)	32,291
Depreciation/amort. expense	581	40	8	175	1,253	2,430	4,487

(1) Interest income, interest expense and foreign exchange gain/(loss) are reported in Corporate and not allocated to the principal operating segments. Only expenses directly related to an operating segment were charged to the appropriate operating segment. All other expenses for marketing and administrative support activities that could not be specifically identified with a principal operating segment were allocated to Corporate.

G. EQUITY LOSS IN JOINT VENTURE

In September 1999, the Company formed AgileVision as a joint venture with Sarnoff Corporation, the developer of color television and a pioneer in the creation of digital television ("DTV"). AgileVision provided broadcasters and cable providers equipment to optimize their DTV investment and develop new broadband media commerce revenue streams, including master control systems that permit broadcasters to perform multiple functions on a single platform that previously would have required the engineering and integration of numerous discrete products and systems. During the three-month periods ended March 31, 2002 and 2001, the Company recognized \$0 and \$1.4 million, respectively, in losses related to the operations of AgileVision. During the nine-month periods ended March 31, 2002 and 2001, the Company recognized \$1.8 million and \$3.1 million, respectively, in losses related to the operations of AgileVision.

Summarized Income Statements for AgileVision during the periods ended March 31, 2002 and 2001 are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Expenses	\$ --	\$ 1,356	\$ 2,448	\$ 3,067
Loss from continuing operations	--	(1,356)	(2,448)	(3,067)
Net loss	\$ --	\$(1,356)	\$(2,448)	\$(3,067)
	=====	=====	=====	=====

H. GAINS ON SALE OF DIVISION AND JOINT VENTURE

On January 18, 2000, the Company completed the sale of its shared storage division ("SSBU") to IBM. Payments were structured with an initial payment of \$4.5 million (excluding \$1.0 million to be held in escrow and payable on a contingent basis), followed by 12 quarterly contingent payments of \$1.6 million, including principal and interest. The quarterly payments are contingent upon IBM's continued use of the technology. If IBM defaults, Mercury has the right to recover the assets, including the patent and other intellectual property. The Company recorded a \$1.6 million gain during each of the three months ended March 31, 2002 and 2001, respectively and recorded a \$4.8 million gain during each of the nine months ended March 31, 2002 and 2001, respectively. The last payment by IBM is scheduled for the third quarter of fiscal 2003 in the amount \$2.6 million which consists of the regular \$1.6

million quarterly payment plus \$1.0 million held in escrow. Future payments by IBM will be similarly recorded as collected.

On February 8, 2002, the Company sold its entire interest in the AgileVision joint venture to Leitch Incorporated. The Company received no proceeds and recorded a \$78,000 gain related to the sale of the joint venture interest during the three-month period ended March 31, 2002.

I. COMMITMENTS AND CONTINGENCIES

In July 1999, a former employee brought a wrongful termination action against the Company and certain officers of the Company. The plaintiff seeks severance pay, the right to purchase 60,000 shares of the Company's common stock at a price of \$2.00 per share, the right to exercise stock options to purchase 96,000 shares of common stock at an exercise price of \$2.00 per share, and other financial consideration. The Company has objected to the claims and is aggressively defending the matter. Binding arbitration has commenced, but no ruling has been issued. The position of the Company's management after consultation with external counsel is that a loss from this action is not probable. Accordingly, no loss accrual has been recorded. If the plaintiff were to prevail on his claims, depending on the price of the Company's common stock, a judgement for a material amount could be awarded against the Company.

J. STOCK REPURCHASE PROGRAM

In January 2002, the Company initiated a stock repurchase program. The stock repurchase program was approved by the Board of Directors, and authorizes the Company to purchase up to \$35.0 million in Company stock from time to time through September 4, 2002. During the three months ended March 31, 2002, the Company purchased 519,000 shares of common stock for \$17.5 million. Accordingly, the Company has \$17.5 million remaining in the stock repurchase program.

K. SUBSEQUENT EVENT

On April 1, 2002, the Company completed its acquisition of Myriad Logic, Inc ("Myriad"). Myriad is a leading developer of I/O technology based in Silver Springs, Maryland. The acquisition of Myriad expands Mercury's capability to provide more of a total system solution and provide more system integration services. The total purchase price of \$7.9 million consisted of \$7.5 million in cash payments plus \$0.4 million of transaction costs directly related to the acquisition.

The preliminary allocation of the purchase price is summarized as follows:

Accounts receivable	\$	1,270,000
Inventory		806,000
Other assets		285,000
Completed technology		3,200,000
Licensing agreement		200,000
Goodwill		4,561,000
Current liabilities		(1,164,000)
Deferred tax liabilities		(1,258,000)

Total	\$	7,900,000
		=====

The purchase price allocation is preliminary pending the finalization of the valuation of acquired intangible assets and the review of the opening balance sheet. The amortization period for the acquired intangible assets subject to amortization, which include the completed technology and the licensing agreement, is four years. The goodwill associated with the acquisition is not deductible for tax purposes.

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

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

From time to time, information provided by the Company, statements made by its employees or information included in its filings with the Securities and Exchange Commission may contain statements which are not historical facts but which are "forward-looking statements" that involve risks and uncertainties. The words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend" and similar expressions are intended to identify forward-looking statements regarding events, conditions and financial trends that may affect the Company's future plans of operations, business strategy, results of operations and financial position. These statements are based on the Company's current expectations and estimates as to prospective events and circumstances about which there can be no firm assurances given. Further, any forward-looking statement speaks only as of the date on which such statement is made, and 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. As it is not possible to predict every new factor that may emerge, forward-looking statements should not be relied upon as a prediction of actual future financial condition or results. Important factors that may cause the Company's actual results to differ from forward-looking statements are referenced in the Company's Form 10-K filed with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company has identified the policies discussed below as critical to understanding its business and its results of operations. The impact and any associated risks related to these policies on its business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect its reported and expected financial results.

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, the Company evaluates its estimates, including those related to inventories, bad debts, income taxes, warranties, contingencies and litigation. The Company bases its estimates on historical experience and on appropriate and customary assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue is recognized upon shipment provided that title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, the sales price is fixed or determinable, collection of the related receivable is reasonably assured, and customer acceptance criteria, if any, have been successfully demonstrated. For products with acceptance criteria that are not successfully demonstrated prior to shipment, revenue is recognized upon customer acceptance. The Company accrues for anticipated warranty costs upon shipment. Service revenue is recognized ratably over applicable contract periods or as the services are performed. For long-term contracts to design, develop, manufacture or modify complex equipment, revenue is recognized using the percentage of completion accounting method based on contract costs incurred to date compared with total estimated contract costs. Revisions in contract cost estimates have the effect of adjusting earnings applicable to performance in prior periods in the current period. Anticipated losses, if any, are recognized in the period in which determined.

The Company assesses collectibility of trade receivables based on a number of factors, including past transaction and collection history with a customer and the credit-worthiness of the customer. The Company performs on-going credit evaluations of its customer's financial condition but generally does not require collateral from its customers. If the Company determines that collectibility of the sale is not reasonably assured, revenue is deferred until such time as collection becomes reasonably assured, which generally occurs upon receipt of payment from the customer.

Inventories, which include materials, labor and manufacturing overhead, are stated at the lower of cost (first-in, first-out basis) or net realizable value. On a quarterly basis, the Company uses consistent methodologies to evaluate all inventory for net realizable value. The Company records a provision 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. If actual demand, product mix or possible alternative uses are less favorable than those projected by management, additional inventory write-downs may be required.

The Company and certain officers of the Company have been named as defendants in a litigation matter. The Company's assumption and estimate with regard to this litigation matter is that a loss is not probable and no loss accrual has been recorded. If a different assumption was made or if the plaintiff were to prevail on his claims, the litigation could have a material effect on the Company's financial position and results of operations.

RESULTS OF OPERATIONS

REVENUES

The Company's total revenues decreased 26% from \$47.0 million during the three months ended March 31, 2001 to \$34.9 million during the three months ended March 31, 2002. Revenue decreased 19% from \$131.7 million during the nine months ended March 31, 2001 to \$107.2 million during the nine months ended March 31, 2002.

Defense electronics revenues decreased 44% from \$31.4 million or 67% of total revenues during the three months ended March 31, 2001 to \$17.6 million or 51% of total revenues during the three months ended March 31, 2002. Defense electronics revenues decreased 28% from \$88.8 million or 67% of total revenues during the nine months ended March 31, 2001 to \$64.1 million or 60% of total revenues during the nine months ended March 31, 2002. The decrease in revenues for both periods was due primarily to delays in the US Defense Department programs resulting from re-planning processes and shifting of priorities to the operational necessities of the war on terrorism.

Medical imaging revenues increased 39% from \$10.3 million or 22% of total revenues during the three months ended March 31, 2001 to \$14.3 million or 41% of total revenues during the three months ended March 31, 2002. Medical imaging revenues increased 18% from \$29.6 million or 22% of total revenues for the nine months ended March 31, 2001 to \$34.8 million or 32% of total revenues for the nine months ended March 31, 2002. The increase in medical imaging revenues for both periods is primarily due to strong performance in all modalities, including magnetic resonance imaging ("MRI") and digital x-ray systems. Medical imaging revenues during the fourth quarter of fiscal 2002 and the next fiscal year are anticipated to be lower than third quarter and estimated fiscal year 2002 revenues due to lower anticipated sales of computed tomography ("CT") systems.

Other commercial revenues decreased 44% from \$5.3 million or 11% of total revenues during the three months ended March 31, 2001 to \$2.9 million or 8% of total revenues during the three months ended March 31, 2002. Other commercial revenues decreased 38% from \$13.3 million or 10% of total revenues in the nine months ended March 31, 2001 to \$8.3 million or 8% of total revenues for the nine months ended March 31, 2002. The decrease in other commercial revenues was due primarily to the continued economic downturn in the semiconductor manufacturing sector, and continued weakened demand in the digital broadcast market.

COST OF REVENUES

Cost of revenues decreased 12% from \$15.3 million during the three months ended March 31, 2001 to \$13.4 million during the three months ended March 31, 2002. As a percent of total revenues, cost of revenues increased from 33% during the three months ended March 31, 2001 to 39% for the three months ended March 31, 2002. For the nine months ended March 31, 2002, cost of revenues decreased by 13% from \$42.6 million during the nine months ended March 31, 2001 to \$36.9 million during the nine months ended March 31, 2002. As a percent of total revenues, cost of revenues increased from 32% during the nine months ended March 31, 2001 to 35% during the nine months ended March 31, 2002. The increase in cost of revenues as a percentage of total revenues in both periods was primarily due to a shift in product mix from the higher margin defense business to the relatively lower margin commercial and medical businesses. To a lesser extent, inventory write-downs in both periods contributed to the decrease in gross margin as a percent of total revenues.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general, and administrative expenses decreased 8% from \$12.6 million during the three months ended March 31, 2001 to \$11.7 million during the three months ended March 31, 2002. Selling, general and administrative expenses decreased 4% from \$37.5 million during the nine months ended March 31, 2001 to \$36.0 million during the nine months ended March 31, 2002. The decrease for both periods was primarily due to the reduction of expenses associated with the implementation of a new financial, manufacturing, and administrative computer system that was installed at the end of the first fiscal quarter of fiscal 2002. Additionally, commissions associated with lower sales volume contributed to the decreased expenses.

RESEARCH AND DEVELOPMENT

Research and development expenses increased 9% from \$8.0 million during the three months ended March 31, 2001 to \$8.8 million during the three months ended March 31, 2002. Research and development expenses increased by 10% from \$22.7 million during the nine months ended March 31, 2001 to \$25.1 million during the nine months ended March 31, 2002. The increase in research and development expenses for both periods was due primarily to the hiring of additional software and hardware engineers to develop and enhance the features and functionality of the Company's products and the introduction of new products in response to demand for next generation products.

GAIN ON SALES OF DIVISION AND JOINT VENTURE

On January 18, 2000, the Company completed the sale of its shared storage division ("SSBU") to IBM. Payments were structured with an initial payment of \$4.5 million (excluding \$1.0 million to be held in escrow and payable on a contingent basis), followed by 12 quarterly contingent payments of \$1.6 million, including principal and interest. The quarterly payments are contingent upon IBM's continued use of the technology. If IBM defaults, Mercury has the right to recover the assets, including the patent and other intellectual property. The Company recorded a \$1.6 million gain during each of the three months ended March 31, 2002 and 2001, respectively and recorded a \$4.8 million gain during each of the nine months ended March 31, 2002 and 2001, respectively. The last payment by IBM is scheduled for the third quarter of fiscal 2003 in the amount \$2.6 million which consists of the regular \$1.6 million quarterly payment plus \$1.0 million held in escrow. Future payments by IBM will be similarly recorded as collected.

On February 8, 2002, the Company sold its entire interest in the AgileVision joint venture to Leitch Incorporated. The Company received no proceeds and recorded a \$78,000 gain related to the sale of the joint venture during the three-month period ended March 31, 2002.

EQUITY LOSS IN JOINT VENTURE

In September 1999, the Company formed AgileVision as a joint venture with Sarnoff Corporation, the developer of color television and a pioneer in the creation of digital television ("DTV"). AgileVision provided broadcasters and cable providers equipment to optimize their DTV investment and develop new broadband media commerce revenue streams, including master control systems that permit broadcasters to perform multiple functions on a single platform that previously would have required the engineering and integration of numerous discrete products and systems. During the three-month periods ended March 31, 2002 and 2001, the Company recognized \$0 and \$1.4 million, respectively, in losses related to the operations of AgileVision. During the nine-month periods ended March 31, 2002 and 2001, the Company recognized \$1.8 million and \$3.1 million, respectively, in losses related to the operations of AgileVision.

PROVISION FOR INCOME TAX

The Company recorded a tax provision of \$0.7 million during the three months ended March 31, 2002 reflecting a 21% tax rate as compared to a \$3.7 million tax provision during the three months ended March 31, 2001, reflecting a 32% tax rate. The Company recorded a tax provision of \$4.1 million during the nine months ended March 31, 2002 reflecting a 28% tax rate as compared to a \$10.3 million tax provision during the nine months ended March 31, 2001, reflecting a 32% tax rate. The decrease in the tax rate in the quarter ended March 31, 2002 was due to the re-estimation of the Company's annual rate and an adjustment during the fiscal third quarter to reduce the annual rate from 30% to 28%. The reduction in the annual rate from 32% to 28% is the result of lower forecasted taxable income compared to the prior fiscal year while amounts for certain tax credits are expected to remain constant or increase in absolute dollars.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, the Company had cash and marketable investments of approximately \$96.2 million. During the nine months ended March 31, 2002, the Company generated approximately \$15.9 million in cash from operations compared to \$19.5 million generated during the nine months ended March 31, 2001. This positive operating cash flow for the nine months ended March 31, 2002 was primarily the result of net income and a significant reduction in the trade receivable balance, offset partially by prepayments of federal income tax. Days sales outstanding was 52 days at March 31, 2002 and 59 days at March 31, 2001.

During the nine months ended March 31, 2002, the Company's investing activities provided cash of \$2.0 million. During the period, the Company received \$4.8 million from proceeds received on the sale of the SSBU division and \$2.1 million in the sale of marketable securities (net of purchases). These cash inflows were partially offset by \$3.9 million for the purchase of computers, furniture and equipment and \$1.0 million investment in a joint venture. During the nine months ended March 31, 2001, the Company's investing activities used cash of \$15.4 million. During the period, investing activities consisted of \$14.1 million for the purchase of marketable securities (net of sales), \$5.1 million for the purchase of computers, furniture and equipment and \$1.0 million investment in a joint venture. These cash outflows were partially offset by the receipt of \$4.8 million from proceeds received on the sale of the SSBU division.

On April 1, 2002, the Company completed its acquisition of Myriad Logic, Inc ("Myriad"). Myriad is a leading developer of I/O and network interface technology. The purchase price of \$7.9 million and consisted of \$7.5 million in cash payments plus \$0.4 million of transaction costs directly related to the acquisition.

During the nine months ended March 31, 2002, the Company's financing activities

used approximately \$14.9 million. These financing activities consisted of \$17.5 million for the re-purchase of treasury stock and \$0.7 million in payments under capital lease and debt obligations. These outflows were partially offset by proceeds received from the exercise of stock options and the employee stock purchase plan. During the nine months ended March 31, 2001, the Company's financing activities provided approximately \$1.5 million. These financing activities consisted primarily of inflows from the exercise of stock options and proceeds received from the employee stock purchase plan, offset by outflows from payments under capital lease and debt obligations.

In January 2002, the Company initiated a stock repurchase program. The stock repurchase program was approved by the Board of Directors, and authorizes the Company to purchase up to \$35.0 million in Company stock. During the three months ended March 31, 2002, the Company purchased 519,000 shares of Company stock for \$17.5 million. Accordingly, the Company has \$17.5 million remaining in the stock repurchase program.

The terms of the Company's mortgage note agreements contain certain covenants, which, among other provisions, require the Company to maintain a minimum net worth. The Company was in compliance with all covenants of the note agreements as of March 31, 2002.

The following is a schedule of the Company's contractual obligations outstanding at March 31, 2002:

(in millions)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Debt	\$13,141	\$ 621	\$ 1,463	\$ 1,691	\$ 9,366
Capital Leases	142	139	3	--	--
Operating Leases	961	310	405	246	--
Total	\$14,244	\$ 1,070	\$ 1,871	\$ 1,937	\$ 9,366

Management believes that the Company's available cash, plus cash generated from operations, will be sufficient to provide for the Company's working capital requirements, the stock purchase program, and capital expenditure requirements for the foreseeable future. If the Company acquires one or more businesses or products, the Company's capital requirements could increase substantially. In the event of such an acquisition or in the event that any unanticipated circumstances arise which significantly increase the Company's capital requirements, there can be no assurance that necessary additional capital will be available on terms acceptable to the Company, if at all.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk Management

There were no material changes in the Company's exposure to market risk from June 30, 2001.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In July 1999, a former employee brought a wrongful termination action against the Company and certain officers of the Company. The plaintiff seeks severance pay, the right to purchase 60,000 shares of the Company's common stock at a price of \$2.00 per share, the right to exercise stock options to purchase 96,000 shares of common stock at an exercise price of \$2.00 per share, and other financial consideration. The Company has objected to the claims and is aggressively defending the matter. Binding arbitration has commenced, but no ruling has been issued. The position of the Company's management after consultation with external counsel is that a loss from this action is not probable. Accordingly, no loss accrual has been recorded. If the plaintiff were to prevail on his claims, depending on the price of the Company's common stock, a judgement for a material amount could be awarded against the Company.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 6. Exhibits and Reports Filed on Form 8-K

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

MERCURY COMPUTER SYSTEMS, INC.
SIGNATURE

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

MERCURY COMPUTER SYSTEMS, INC.

Date: May 15, 2002

By: /s/ John F. Alexander II

John F. Alexander II
Senior Vice President, Chief Financial Officer
and Treasurer
(Principal Financial and Accounting Officer)