

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 December 31, 1998

Commission File Number 0-23599

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

MASSACHUSETTS
(State or other jurisdiction of
Incorporation or organization)

04-2741391
(I.R.S. Employer Identification No.)

199 RIVERNECK ROAD
CHELMSFORD, MA
(Address of principal
executive offices)

01824
(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 NO

Number of shares outstanding of the issuer's classes of common stock as of
January 31, 1999:

Class	Number of Shares Outstanding
----- Common Stock, par value \$.01 per share	----- 10,222,693

Total number of pages 15

MERCURY COMPUTER SYSTEMS, INC.
TABLE OF CONTENTS

	PAGE NUMBER -----
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 1998 and June 30, 1998	3
Consolidated Statements of Operations for the Three Months Ended December 31, 1998 and December 31, 1997 and for the Six Months Ended December 31, 1998 and December 31, 1997	4
Consolidated Statements of Cash Flows for the Six Months Ended December 31, 1998 and December 31, 1997	5
Notes to Consolidated Financial Statements	6-7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8-11
PART II. OTHER INFORMATION	
Item 2. Use of Proceeds from Registered Securities	12
Item 6. Exhibits and Reports Filed on Form 8-K	13
SIGNATURE	14
EXHIBIT INDEX	15

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	DECEMBER 31, 1998	JUNE 30, 1998
	-----	-----
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,898	\$ 6,054
Marketable securities	6,071	10,077
Trade accounts receivable, net of allowances of \$292 and \$218 at December 31, 1998 and June 30, 1998, respectively	16,400	17,143
Inventory	9,257	9,125
Deferred income taxes, net	1,669	1,669
Prepaid expenses and other current assets	1,845	1,255
	-----	-----
Total current assets	42,140	45,323
Marketable securities	26,510	18,889
Property and equipment, net	13,615	8,466
Capitalized software costs, net	418	104
Deferred income taxes, net	429	429
Other assets	254	358
	-----	-----
Total assets	\$ 83,366	\$ 73,569
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,501	\$ 3,368
Accrued expenses	3,655	2,804
Accrued compensation	3,651	3,316
Billings in excess of revenues and customer advances	803	1,017
Income taxes payable	1,118	2,024
	-----	-----
Total current liabilities	14,728	12,529
Commitments and contingencies (note E)	--	--
Stockholders' equity:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized and none issued and outstanding at December 31, 1998 and June 30, 1998 respectively (liquidation preference none)	--	--
Common stock, \$.01 par value: 25,000,000 shares authorized; 10,168,663 and 9,973,491 shares issued and outstanding at December 31, 1998 and June 30, 1998, respectively	102	100
Additional paid-in capital	27,472	25,961
Retained earnings	41,046	35,483
Cumulative translation adjustment	(8)	(185)
Unrealized gains/(losses) on securities	26	6
Related parties notes receivable	--	(325)
	-----	-----
Total stockholders' equity	68,638	61,040
	-----	-----
Total liabilities and stockholders' equity	\$ 83,366	\$ 73,569
	=====	=====

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

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

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	1998	1997	1998	1997
	-----		-----	
Net revenue	\$ 25,598	\$ 20,624	\$ 49,660	\$ 39,663
Cost of revenue	8,606	7,283	17,066	13,944
	-----		-----	
Gross profit	16,992	13,341	32,594	25,719
Operating expenses:				
Selling, general and administrative	8,304	6,846	15,662	13,491
Research and development	4,669	3,405	9,376	6,786
	-----		-----	
Total operating expenses	12,973	10,251	25,038	20,277
Income from operations	4,019	3,090	7,556	5,442
Interest income, net	326	219	695	450
Other income (expenses), net	261	(125)	306	(43)
	-----		-----	
Income before income taxes	4,606	3,184	8,557	5,849
Provision for income taxes	1,572	1,210	2,994	2,270
	-----		-----	
Net income	\$ 3,034	\$ 1,974	\$ 5,563	\$ 3,579
	=====		=====	
Net income per share:				
Basic	\$ 0.30	\$ 0.37	\$ 0.55	\$ 0.68
	=====		=====	
Diluted	\$ 0.28	\$ 0.24	\$ 0.52	\$ 0.44
	=====		=====	
Weighted average shares outstanding:				
Basic	10,117	5,307	10,072	5,262
	=====		=====	
Diluted	10,787	8,281	10,704	8,136
	=====		=====	

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

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

	SIX MONTHS ENDED DECEMBER 31,	
	1998	1997
Cash flows provided from operating activities:		
Net income	\$ 5,563	\$ 3,579
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,927	1,645
Deferred income taxes	--	(331)
Provision for doubtful accounts	116	--
Changes in assets and liabilities:		
Trade accounts receivable	833	277
Inventory	(1,633)	(113)
Prepaid expenses and other current assets	(548)	(764)
Other assets	86	(15)
Accounts payable	2,131	(1,007)
Accrued expenses and compensation	1,165	1,430
Billings in excess of revenues and customer advances	(218)	(263)
Income taxes payable	(918)	(449)
	-----	-----
Net cash provided by operating activities	10,024	2,469
	-----	-----
Cash flows from investing activities:		
Purchase of marketable securities	(3,595)	--
Purchases of property and equipment	(6,787)	(2,696)
Capitalized software development costs	(575)	(51)
Notes receivable from related parties	325	--
	-----	-----
Net cash used in investing activities	(10,632)	(2,747)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	--	--
Proceeds from exercise of stock options and warrants	1,513	252
	-----	-----
Net cash provided by financing activities	1,513	252
	-----	-----
Effect of exchange rate change on cash and cash equivalents	(61)	29
	-----	-----
Net change in cash and cash equivalents	844	3
Cash and cash equivalents at beginning of period	6,054	15,193
	-----	-----
Cash and cash equivalents at end of period	\$ 6,898	\$ 15,196
	=====	=====
Cash paid during the period for:		
Interest	--	--
Income taxes	\$ 4,109	\$ 3,064

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

MERCURY COMPUTER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION

These consolidated financial statements should be read in conjunction with the Company's financial statements and footnotes included in the Company's Form 10-K, 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 to present fairly the consolidated financial position, results of operations and cash flows of Mercury Computer Systems, Inc.

B. INVENTORY

	DECEMBER 31, 1998 IN THOUSANDS) -----	JUNE 30, 1998 (IN THOUSANDS) -----
Raw materials	\$ 3,783	\$ 4,707
Work in process	4,625	2,814
Finished goods	849	1,604
	-----	-----
Total	\$ 9,257 =====	\$ 9,125 =====

C. NET INCOME PER COMMON SHARE

The Company has adopted Statement of Financial Accounting Standard ("SFAS") No. 128, "Earnings Per Share," which specifies the computation, presentation and disclosure requirements for net income per common share. Basic net income per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per common share gives effect to all diluted potential common shares outstanding during the period. Under SFAS No. 128, the computation of diluted earnings per share does not assume the issuance of common shares that have an antidilutive effect on net income per common share.

Prior to the adoption of this statement, all common and common equivalent shares issued during the twelve month period prior to the filing of the initial public offering ("cheap stock") were included in the calculation of basic and diluted earnings per share as if they were outstanding for all periods presented. Adoption of this statement, and the related guidance set out in Securities and Exchange Commission Staff Accounting Bulletin No. 98, has eliminated the inclusion of cheap stock from the calculation of basic and diluted earnings per share prior to issuance of the securities.

	THREE MONTHS ENDED DECEMBER 31, 1998 1997		SIX MONTHS ENDED DECEMBER 31, 1998 1997	
	(IN THOUSANDS)	(IN THOUSANDS)	(IN THOUSANDS)	(IN THOUSANDS)
	-----	-----	-----	-----
Net income	\$ 3,034	\$ 1,974	\$ 5,563	\$ 3,579
Shares used in computation:				
Weighted average common shares				
Outstanding used in computation				
of basic net income per share	10,117	5,307	10,072	5,262
Dilutive effect of convertible preferred stock	--	2,557	--	2,557
Dilutive effect of stock options	670	632	417	317
	-----	-----	-----	-----
Shares used in computation of diluted net income per share	10,787 =====	8,281 =====	10,704 =====	8,136 =====
Basic net income per share	\$ 0.30 =====	\$ 0.37 =====	\$ 0.55 =====	\$ 0.68 =====
Dilutive net income per share	\$ 0.28 =====	\$ 0.24 =====	\$ 0.52 =====	\$ 0.44 =====

Options to purchase 5,842 and 249,692 shares of common stock were outstanding during the three months ended December 31, 1998 and December 31, 1997, respectively, but were not included in the calculation of diluted net income per common share because the option price was greater than the average market price of the common shares during the period. Options to purchase 44,690 and 141,810 shares of common stock were outstanding during the six months ended December 31, 1998 and December 31, 1997, respectively, but were not included in the calculation of diluted net income per common share because the option price was greater than the average market price of the common shares during the period.

D. COMPREHENSIVE INCOME

Mercury's total comprehensive income was as follows (in thousands)

	THREE MONTHS		SIX MONTHS	
	ENDED DECEMBER 31, 1998	1997	ENDED DECEMBER 31, 1998	1997
Net income	\$ 3,034	\$ 1,974	\$ 5,563	\$ 3,579
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	99	(25)	115	--
Unrealized gains on securities	(14)	--	13	--
Other comprehensive income	85	(25)	128	--
Total comprehensive income	\$ 3,119	\$ 1,949	\$ 5,691	\$ 3,579

E. INTERNAL REVENUE SERVICE AUDIT

On December 12, 1997, the Internal Revenue Service ("IRS") concluded an audit of the Company's tax returns for the years ended June 30, 1992 through June 30, 1995, and issued a formal report reflecting proposed adjustments with respect to the years under audit. The proposed IRS adjustments primarily relate to the disallowance of research and experimental tax credits claimed by the Company, as well as the treatment of certain other items. As of December 12, 1997 the total deficiency attributable to the proposed adjustments was \$4,181,000, including penalties and interest in the amount of \$1,591,000. The Company has appealed the proposed adjustments to the Appeals Division of the IRS. While the Company does not believe that the final outcome of the IRS audit will have a material adverse effect on the Company's financial condition or results of operations, no assurance can be given as to the final outcome of the audit, the amount of any final adjustments or the potential impact of such adjustments on the Company's financial condition or results of operations.

F. NEW ACCOUNTING PRONOUNCEMENTS

In June of 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement supercedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." This statement includes requirements to report selected segment information quarterly and entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues. The statement will be effective for annual periods beginning after December 15, 1997 and the Company will adopt its provisions in fiscal 1999. Reclassification for earlier periods is required, unless impracticable, for comparative purposes. The Company is currently evaluating the impact this statement will have on its financial statements.

In March 1998, the American Institute of Certified Public Accountants issued SOP 98-1, "Internal Use Software," which provides guidance on the accounting for the costs of software developed or obtained for internal use. SOP 98-1 is effective for fiscal years beginning after December 15, 1998. Management does not expect the statement to have a material impact on its financial position or results of operations.

On June 15, 1998 the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 is effective for all fiscal quarters for all fiscal years beginning after June 15, 1999. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. Management of the Company anticipates that, due to its limited use of derivative instruments, the adoption of SFAS No. 133 will not have a material impact on its financial position or results of operations.

MERCURY COMPUTER SYSTEMS, INC.

ITEM 2. MANAGEMENT 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 10K filed annually with the Securities and Exchange Commission.

RESULTS OF OPERATIONS:

REVENUES

The Company's total revenues increased 24% from \$20.6 million during the three months ended December 31, 1997 to \$25.6 million during the three months ended December 31, 1998. The Company's total revenues increased 25% from \$39.7 million during the six months ended December 31, 1997 to \$49.7 million during the six months ended December 31, 1998.

Defense electronics revenues increased 23% from \$15.7 million or 76% of total revenues during the three months ended December 31, 1997 to \$19.2 million or 75% of total revenues during the three months ended December 31, 1998. Defense electronics revenues increased 20% from \$30.8 million or 78% of total revenues during the six months ended December 31, 1997 to \$36.9 million or 74% of total revenues during the six months ended December 31, 1998. Increases in defense electronic revenues were due primarily to continued strong unit demand for defense electronics products, largely comprised of advanced military applications in radar, sonar and airborne surveillance.

Medical imaging revenues increased 49% from \$2.9 million or 14% of total revenues during the three months ended December 31, 1997 to \$4.3 million or 17% of total revenues during the three months ended December 31, 1998. Medical imaging revenues increased 45% from \$5.1 million or 13% of total revenues during the six months ended December 31, 1997 to \$7.4 million or 15% of total revenues during the six months ended December 31, 1998. Increases in medical imaging revenues are reflective of the Company's ongoing investment in this business, expansion into new modalities and the resulting increased unit demand.

Other revenues, which include the Shared Storage and other commercial businesses, remained essentially flat at \$2.1 million during the three months ended December 31, 1997 and 1998. In terms of percentage to total revenues, other revenues declined from 10% during the three months ended December 31, 1997 to 8% during the three months ended December 31, 1998. Other revenues increased 39% from \$3.8 million or 10% of total revenues during the six months ended December 31, 1997 to \$5.3 million or 11% of total revenues during the six months ended December 31, 1998. The increase in other revenues during the six month period, year over year, was primarily due to a sharp rise in the Company's commercial business, and resulting increased unit demand, during the first quarter of fiscal 1999.

COST OF REVENUES

Cost of revenues increased 18% from \$7.3 million or 35% of total revenues during the three months ended December 31, 1997 to \$8.6 million or 34% of total revenues during the three months ended December 31, 1998. Cost of revenues increased 22% from \$13.9 million or 35% of total revenues during the six months ended December 31, 1997 to \$17.1 million or 34% of total revenues during the six months ended December 31, 1998. The cost increases correlate with the corresponding revenue increases and the reductions as a percentage of revenues reflect component cost reductions and modest efficiency gains.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general, and administrative expenses increased 21% from \$6.8 million or 33% of total revenues during the three months ended December 31 1997 to \$8.3 million or 32% of total revenues during the three months ended December 31, 1998. Selling, general and administrative expenses increased 16% from \$13.5 million or 34% of total revenues during the six months ended December 31, 1997 to \$15.7 million or 32% of total revenues during the six months ended December 31, 1998. These increases reflect the hiring of additional sales and administrative personnel, information system investments, increased commissions and marketing related costs, all of which are associated with higher sales volume.

RESEARCH AND DEVELOPMENT

Research and development expenses increased 37% from \$3.4 million or 17% of total revenues during the three months ended December 31, 1997 to \$4.7 million or 18% of total revenues during the three months ended December 31, 1998. Research and development expenses increased 38% from \$6.8 million or 17% of total revenues during the six months ended December 31, 1997 to \$9.4 million or 19% of total revenues during the six months ended December 31, 1998. This increase was due primarily to the hiring of additional engineers to develop and enhance the features and functionality of the Company's current products and to develop the Company's next generation products. Engineering expenses currently are running higher than management's target levels as the Company is working on major development programs to deliver important new technology to its customers.

INCOME FROM OPERATIONS

Income from operations increased 30% from \$3.1 million or 15% of total revenues during the three months ended December 31, 1997 to \$4.0 million or 16% of total revenues during the three months ended December 31, 1998. Income from operations increased 39% from \$5.4 million or 14% of total revenues during the six months ended December 31, 1997 to \$7.6 million or 15% of total revenues during the six months ended December 31, 1998.

Included in income from operations during the three months ended December 31, 1998 were \$689,000 in hardware and software revenues and \$1.1 million in direct expenses related to the Shared Storage business. Included in income from operations during the three months ended December 31, 1997 were \$47,000 in hardware and software revenues and \$820,000 in direct expenses related to the Shared Storage business. Included in income from operations during the six months ended December 31, 1998 were \$1.3 million in hardware and software revenues and \$2.0 million in direct expenses related to the Shared Storage business. Included in income from operations during the six months ended December 31, 1997 were \$84,000 in hardware and software revenues and \$1.5 million in direct expenses related to the Shared Storage business. The direct expenses include expenses from marketing and engineering activities, primarily related to compensation, trade shows, prototype development and direct costs related to the sale of the product, including certain hardware costs.

INTEREST INCOME, NET

Interest income, net, increased 49% from \$219,000 during the three months ended December 31, 1997 to \$326,000 during the three months ended December 31, 1998. Interest income, net, increased 54% from \$450,000 during the six months ended December 31, 1997 to \$695,000 during the six months ended December 31, 1998. This increase reflects an increase in the Company's average cash and cash equivalent balances primarily as a result of cash received from the Company's initial public offering. Offsetting the effect of higher average cash balances were lower yields achieved on the Company's cash. These lower yields were the result of a shift in investment strategy from taxable money market instruments to non-taxable securities. Additionally, \$50,000 of interest expense was accrued during the quarter ended December 31, 1998 related to the Internal Revenue Service audit as described in the notes to the financial statements.

PROVISION FOR INCOME TAX

The Company recorded a tax provision of \$1.6 million during the three months ended December 31, 1998 reflecting a 34% tax rate as compared to a \$1.2 million tax provision during the three months ended December 31, 1997, reflecting a 38% tax rate. The Company recorded a tax provision of \$3.0 million during the six months ended December 31, 1998 reflecting a 35% tax rate as compared to a \$2.3 million tax provision during the six months ended December 31, 1997 reflecting a 39% tax rate. The reduced tax rate was primarily due to a one-time tax provision adjustment during the current quarter to reflect Congressional extension of the research and experimentation tax credit through June, 1999.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1998, the Company had cash and marketable investments of approximately \$39.5 million. During the six months ended December 31, 1998, the Company generated approximately \$10.0 million in cash from operations compared to \$2.5 million generated during the six months ended December 30, 1997. The increase in cash generated from operations was due primarily to increased profitability, accounts payable increases and improved management of accounts receivable. Days sales outstanding (DSO) increased from 45 days at December 31, 1997 to 58 days at December 31, 1998. This DSO increase is primarily due to a disproportionate amount of revenue being recognized early in the quarter ended December 31, 1997. However, DSO during the quarter ended December 31, 1998 reflected significant improvement over the previous quarter's DSO of 75.

The Company has a line of credit agreement with a commercial bank on which the Company can borrow up to \$5.0 million at an interest rate equal to the prime rate or, at the election of the Company, two and one quarter percentage points above the London InterBank Offered Rate. As of December 31, 1998, there was no outstanding borrowing on this line of credit.

During the six months ended December 31, 1998, the Company's investing activities used cash of \$10.6 million which consisted of \$4.8 million related to the development of additional office space, \$3.6 million for the purchase of marketable securities (net), \$2.0 million for computers, furniture, equipment and leasehold improvements and \$575,000 for capitalized software. These outflows were offset by a reduction in notes receivable from related parties amounting to \$325,000. During the six months ended December 31, 1997, the Company's investing activities used cash of \$2.7 million, consisting of \$1.8 million for computers, furniture, equipment and leasehold improvements and \$913,000 related to the development of additional office space.

During the six months ended December 31, 1998, the Company's financing activities provided approximately \$1.5 million in cash, all related to the issuance of stock options. During the six months ended December 31, 1997, the Company's financing activities provided \$252,000 in cash from the issuance of stock options.

The Company believes that its available cash, cash generated from operations, and the Company's line of credit, will be sufficient to provide for the Company's working capital and capital expenditure requirements for the foreseeable future and any final adjustments resulting from the IRS audit described in the notes to the financial statements. 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.

YEAR 2000 COMPLIANCE

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. These date code fields will need to distinguish 21st century dates from 20th century dates and, as a result, many company's software and computer systems may need to be upgraded or replaced in order to comply with such "Year 2000" ("Y2K") requirements. Generally, on a stand-alone basis Mercury's products are not date dependent and therefore are not susceptible to Y2K issues like other general purpose computer companies. However, it should be understood that the majority of Mercury's product performance is dependent upon third party host computing environments.

Mercury's Y2K Initiative: In the Company's Annual Report on Form 10K for the fiscal year ended June 30, 1998, the Company made disclosures regarding the following matters: (i) the Company's state of Y2K readiness of the hardware and software products sold by the Company ("Products"), the information technology systems used in its operations ("IT Systems"), and its non-IT Systems, such as building security, voice mail and other systems, (ii) the expenditures expected to be incurred in connection with identifying, evaluating and settling any Y2K compliance issues, (iii) the risks associated with identified Y2K issues, and (iv) the Company's intention to develop a contingency plan to address identified Y2K compliance issues.

State of Readiness: Since the Company's original Y2K disclosure, the Company has reprogrammed the source code underlying its current financial and accounting software to make it Y2K compliant. Testing of the reprogrammed software is on schedule and is expected to be completed by May, 1999. The Company also plans to upgrade certain other business systems supporting human resources and sales information data bases. These upgrades are expected to be completed by June 30, 1999. The Company has evaluated IT systems and has concluded that the majority of such systems are compliant. Plans are in place to upgrade the remaining IT system components with an objective of bringing the entire infrastructure into compliance by June 30, 1999.

The Company continues its assessment of all current versions of its Products and believes they are Y2K compliant. The Company has determined that it is not feasible to test all prior versions of its Products. To assess whether material third parties with whom the Company conducts business are Y2K compliant, the Company is engaged in activities to examine their state of readiness, primarily through the use of third party questionnaires. This examination includes professional service providers.

Costs: Based on its investigation to date, the Company does not expect the total cost of its Y2K Project to have a material adverse effect on the Company's business or financial results. It is estimated that the cost related to Y2K will fall between \$100,000 and \$500,000.

Contingency Plan: To minimize potential disruptions, the Company intends to adopt a contingency plan as necessary to address any material issues raised during the completion of the assessment and testing phases of the Project, or any material issues raised in connection with the response by material third parties to the Company's questionnaires.

MERCURY COMPUTER SYSTEMS, INC.
PART II. OTHER INFORMATION

(d) Use of Proceeds from Registered Securities.

During the three months of October, November and December 1998, the Company used approximately \$4.8 million of proceeds received from the sale of 2,000,000 shares in the Company's initial public offering which closed on February 4, 1998 for the construction of an additional facility as discussed in the Company's Form 10K filed with the Securities and Exchange Commission. The Company intends to own and occupy this newly constructed building, which consists of 91,000 square feet. A portion of the building will be leased to an unaffiliated third party. The Company has also purchased its current headquarters building, which consists of 96,000 square feet. The Company is currently exploring financing alternatives for both of these properties.

ITEM 6. EXHIBITS AND REPORTS FILED ON FORM 8-K

(a) Exhibits. See as listed

Exhibit
Item #

10.1 Purchase and Sale Agreement for 199 Riverneck Road,
Chelmsford, MA.

10.2 Quitclaim Deed for 199 Riverneck Road, Chelmsford, MA.

27.1 Financial Data Schedule

(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: February 12, 1999

By: /s/ G. MEAD WYMAN

G. Mead Wyman
Senior Vice President, Chief Financial
Officer and Treasurer
(Principal Financial and Accounting
Officer)

MERCURY COMPUTER SYSTEMS, INC.
EXHIBIT INDEXExhibit
Item #
- - - - -

- 10.1 Purchase and Sale Agreement for 199 Riverneck Road, Chelmsford, MA.
- 10.2 Quitclaim Deed for 199 Riverneck Road, Chelmsford, MA.
- 27.1 Financial Data Schedule

PURCHASE AND SALE AGREEMENT

199 RIVERNECK ROAD, CHELMSFORD, MASSACHUSETTS

1. PARTIES - This 5th day of February, 1999, THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES (the "SELLER") agrees to sell and 199 RIVERNECK, LLC (the "BUYER") agrees to buy, upon the terms and conditions set forth herein, the real estate that is the subject of this agreement (the "Premises").

2. PREMISES - The Premises consist of approximately 6.3 acres of land with the approximately 96,104 square foot building thereon situated in Chelmsford, Middlesex County, Massachusetts, known as and numbered 199 Riverneck Road, more particularly described in Exhibit A hereto. Included in the sale for no additional consideration are all fixtures and other property belonging to the SELLER located in or on the Premises and all rights of the SELLER relating to the Property.

3. TITLE DEED - The Premises are to be conveyed by a good and sufficient Massachusetts quitclaim deed in a form appropriate for recording with the Middlesex North Registry of Deeds running to the BUYER, or to the nominee designated by the BUYER by written notice to the SELLER given at least seven (7) days before the deed is to be delivered as herein provided. The deed shall convey good and clear record and marketable title to the Premises insurable by a title insurance company at standard rates, free from encumbrances, except:

- (a) Provisions of building, environmental, zoning and other land use laws;
- (b) Such municipal taxes for the then current fiscal period as are not due and payable on the date of the delivery of the deed;
- (c) Any liens for municipal betterments assessed after the date of this agreement; and
- (d) All matters of record as of the date of this Agreement and matters shown on a current and accurate survey of the Premises which are not objected to by the BUYER prior to the end of the Review Period, as defined in Section 6.

4. PURCHASE PRICE - The agreed purchase price for the Premises is \$8,300,000, which shall be paid at the time of delivery of the deed in cash, or by certified, cashier's, treasurer's or bank check, or if requested by the SELLER, by wire transfer of immediately available federal funds.

5. TIME FOR PERFORMANCE: DELIVERY OF DEED - The deed is to be delivered at 11:00 o'clock a.m. on February 9, 1999 (the "Closing Date"), at the offices of the SELLER'S counsel, Nutter, McClennen & Fish, LLP, One International Place, Boston, MA 02110-2699, unless otherwise agreed upon in writing. It is agreed that time is of the essence of this Agreement. The consummation of the sale contemplated by this Agreement is sometimes referred to herein as the "closing."

6. REVIEW PERIOD. The BUYER shall have until the closing (the "Review Period") to (a) review the SELLER's title to the Premises and to obtain a survey of the Premises; (b) have made an assessment of the Premises for the presence of any oil, hazardous material, hazardous waste or hazardous substance (hereinafter collectively called "Hazardous Substances") as those terms are defined by any applicable federal, state or local law, rule, regulation (hereinafter collectively called "Applicable Environmental Laws"); (c) otherwise review the Premises as the BUYER in its sole discretion shall deem necessary; and (d) contact and consult with any and all federal, state, municipal and other governmental bodies having jurisdiction over the Premises ("Governmental Authorities") regarding the zoning, building code and other governmental permits and approvals necessary under any applicable laws, regulations, codes, orders, ordinances, rules and statutes now in effect, including, without limitation, the Applicable Environmental Laws (collectively referred to as "Applicable Laws") for the use and operation of the improvements on the Premises. All of the investigations described in this Section 6 shall be undertaken by the BUYER at the BUYER'S sole cost and expense, including, without limitation, the cost of such surveys, inspections and tests.

In the event that the BUYER determines, in its sole discretion, (a) the title to, or any matter shown on the survey of, the Premises to be unsatisfactory, (b) the environmental condition of the Premises to be unsatisfactory, or (c) that the Premises does not comply with Applicable Laws or is otherwise unsatisfactory, then, in any such case, the BUYER may terminate this Agreement by giving written notice to the SELLER and Escrow Agent on or before the expiration of the Review Period detailing the basis on which the BUYER reasonably determined the Premises to be unsatisfactory or in violation of Applicable Laws, as aforesaid, whereupon the Deposit shall be refunded to the BUYER, this Agreement shall terminate and neither party shall have any rights or remedies hereunder, except as otherwise provided herein to survive the termination of this Agreement.

In the event that notice of termination is not given by the BUYER by the expiration of the Review Period, the BUYER shall be deemed to have approved the condition of the Premises (except any condition first arising after the date of the BUYER'S inspection of the Premises during the Review Period), the compliance of the Premises with all Applicable Laws and other matters and the state of title to the Premises as it exists as of the closing.

During the Review Period, the BUYER and its representatives, contractors, architects and engineers, and each of their respective officers, directors, agents, employees and representatives shall have access to the Premises at reasonable times and for reasonable periods (a) to show the Premises to third-parties (including, without limitation, lenders, insurers or attorneys) and (b) to perform any and all tests, borings, inspections and measurements which, in the BUYER'S opinion, are reasonably necessary or appropriate; provided that in all cases the BUYER and any such representatives, contractors, architects and engineers shall be accompanied by a representative of the SELLER.

If the closing shall not occur, after its inspections are completed, the BUYER shall restore the Premises, at the BUYER'S sole cost and expense, substantially to its condition immediately prior to the BUYER'S inspections. The BUYER agrees to indemnify and hold the SELLER harmless from and against all claims, damages and liability arising out of or relating to the exercise by the BUYER, or such any other person, of the access rights under this Section 6, including, without limitation, such claims, damages and liability for personal injury or property damage, and all costs and reasonable attorneys' fees.

Such indemnity and obligations of the BUYER under this Section 6 shall survive the Closing (as hereinafter defined) or the earlier termination of this Agreement.

7. CONDITION OF PROPERTY. The BUYER and the SELLER agree that the BUYER is acquiring the Premises in its "AS-IS" condition, with all faults, if any, and without any warranty, express or implied, except as set forth in this Agreement. By accepting the deed and paying the purchase price, the BUYER acknowledges that (a) it is familiar with the Premises and has had full opportunity, to the extent it desired to do so, to fully inspect and review (i) the environmental condition of the Premises, (ii) the title to the Premises, (iii) the compliance with the Premises with Applicable Laws and (iv) such other engineering and other matters related to the Premises as the BUYER has found appropriate and the BUYER thereby acknowledges that the BUYER is satisfied with each of the foregoing matters. The BUYER hereby confirms that, except as set forth in this Agreement, neither the SELLER nor any director, officer, employee, agent or representative of the SELLER nor any other person purporting to act on behalf of the SELLER has made any representation upon which the BUYER is relying with respect to the Premises. The BUYER hereby releases the SELLER, its agents, representatives, employees, successors and assigns from and against any and all claims, demands and causes of action that the BUYER may have relating to (a) the condition of the Premises, or (b) any other matter pertaining to the Premises, as of the closing hereunder. Such release shall survive the Closing or the earlier termination of this Agreement.

Except as otherwise provided in Section 8 of this Agreement, the BUYER hereby agrees that any loss, damage or deterioration in respect of the buildings or other improvements on the Premises which may occur between the Effective Date and the

closing shall not give rise to any adjustment of the Purchase Price or any change in the rights and obligations of the parties.

8. POSSESSION AND CONDITION OF PREMISES - Full possession of the Premises free of all tenants and occupants (other than the BUYER and those claiming under the BUYER) is to be delivered at the time of the delivery of the deed, the Premises to be then (a) in the same condition as they now are in on the Effective Date, excepting only reasonable use and wear thereof and damage by fire or other insured casualty not exceeding \$100,000 in cost to repair (a "Minor Insured Casualty"), and (b) in compliance with the provisions of any instrument referred to in paragraph 3(d) hereof. In the event of a Minor Insured Casualty between the date hereof and the closing, at the closing insurance proceeds in an amount sufficient to effect the repair by a reputable licensed professional contractor shall be paid to the BUYER. If the Premises shall be damaged by fire or casualty which is not a Minor Insured Casualty, the provisions of Sections 9, 10 and 11 shall be applicable.

9. EXTENSION TO PERFECT TITLE OR MAKE PREMISES CONFORM - If the SELLER shall be unable to give title, or to make conveyance, or to deliver possession of the Premises, all as herein stipulated, or if at the time of the delivery of the deed the Premises do not conform with the provisions hereof, the SELLER shall use reasonable efforts to remove any defects in title, or to deliver possession as provided herein, or to make the Premises conform to the provisions hereof, as the case may be. In such event, the time for performance shall be extended for a period of thirty (30) days. "Reasonable efforts", as used in this paragraph, shall not require the expenditure of more than \$50,000 by the SELLER; provided, however, that such \$50,000 limitation shall not apply to monetary encumbrances voluntarily incurred by the SELLER on the Premises.

10. FAILURE TO PERFECT TITLE OR MAKE PREMISES CONFORM, ETC. - If at the expiration of the extended time the SELLER shall have failed so to remove any defects in title, deliver possession, or make the Premises conform, as the case may be, all as herein agreed, then at the BUYER'S option, all deposits made under this Agreement shall be forthwith refunded, and thereupon all other obligations of all parties hereto shall cease and this agreement shall be void and without recourse to the parties hereto.

11. BUYER'S ELECTION TO ACCEPT TITLE - The BUYER shall have the election, at either the original or any extended time for performance, to accept such title as the SELLER can deliver to the Premises in its then condition and to pay therefor the full purchase price without reduction. In the event of such conveyance, if the Premises shall have been damaged by fire or casualty insured against and have not been fully restored, the SELLER shall pay over or assign to the BUYER, on delivery of the deed, all amounts recovered or recoverable on account of such insurance, less any amounts reasonably expended for any partial restoration.

12. ACCEPTANCE OF DEED - The acceptance of a deed by the BUYER or its nominee, as the case may be, shall be deemed to be a full performance and discharge of every agreement and obligation herein contained or expressed, except such as are, by the terms hereof, to be performed after the delivery of the deed.

13. USE OF PURCHASE MONEY TO CLEAR TITLE - To enable the SELLER to make conveyance as herein provided, if required, the SELLER shall, at the time of delivery of the deed, use the purchase money or any portion thereof to clear the title of any or all encumbrances or interests, provided that all instruments so procured are delivered simultaneously with the delivery of the deed, with the exception of mortgage discharges from recognized lending institutions, which may be obtained expeditiously and recorded in due course.

14. INSURANCE - Until the delivery of the deed, the SELLER shall maintain fire and extended coverage casualty insurance on the Premises as currently insured.

15. ADJUSTMENTS - The BUYER is the tenant of the Premises and pays all real estate taxes, electricity, gas and water and sewer use charges. Accordingly, there shall be no adjustments on account thereof.

16. INTENTIONALLY DELETED.

17. INTENTIONALLY DELETED.

18. CONSTRUCTION OF AGREEMENT - This instrument, executed in four original counterparts, is to be construed as a Massachusetts contract, is to take effect as a sealed instrument, sets forth the entire contract between the parties, is binding upon and enures to the benefit of the parties hereto and their respective heirs, devisees, executors, administrators, successors and assigns, and may be cancelled, modified or amended only by a written instrument executed by both the SELLER and the BUYER. The captions are used only as a matter of convenience and are not to be considered a part of this agreement or to be used in determining the intent of the parties to it.

19. SUPERSEDES OTHER AGREEMENTS - This agreement supersedes any and all other agreements made prior hereto by and between any or all of the parties hereto with respect to the transaction contemplated hereby and all of such prior agreements are hereby made void and without recourse to the parties thereto.

20. ENFORCEMENT OF AGREEMENT - In the event that either party shall engage legal counsel for the purpose of enforcing this agreement, and litigation is actually commenced by either party, the costs and reasonable attorney's fees of the prevailing party in such litigation shall be paid by the non-prevailing party.

21. BROKERAGE WARRANTY - The SELLER and the BUYER represent and warrant to each other that neither has dealt with any real estate agent or broker in connection with the transaction contemplated hereby and was not called to the attention of the other as a result of any services or facilities of any such other real estate agent or broker, other than Spaulding & Slye. The SELLER and the BUYER agree to indemnify, exonerate and hold the other harmless from and against any claim, loss, damage, cost or liability for any brokerage commission or fee which may be asserted against the other as a result of the other's breach of this warranty. The provisions of this paragraph shall survive delivery of the deed hereunder.

22. NOTICE - Any notice given hereunder shall be deemed duly given when mailed by registered or certified mail, return receipt requested, postage and registration or certification charges prepaid, addressed in the case of the SELLER to the SELLER c/o Lend Lease Real Estate, 787 Seventh Avenue, New York, New York 10019, Attention: John C. Schoser, Vice President, with a copy simultaneously mailed by first class mail, postage prepaid to James W. Hackett, Esq., Nutter, McClennen & Fish, LLP, One International Place, Boston, MA 02110-2699 and in the case of the BUYER to the BUYER at the Premises, with a copy simultaneously so mailed to Anthony J. Medaglia, Jr., Esq., Hutchins, Wheeler & Dittmar, 101 Federal Street, Boston, MA 02110, except that either party may by written notice to the other designate another address which shall thereupon become the effective address of such party for the purposes of this clause.

23. NO ASSIGNMENT; NO RECORDING - The BUYER shall not assign this agreement or any of the BUYER'S rights under this agreement without the written consent of the SELLER which may be withheld by the SELLER in the SELLER'S sole and uncontrolled discretion. This document shall not be recorded.

24. NON-FOREIGN CERTIFICATION - The SELLER shall deliver to the BUYER at the closing a duly executed non-foreign certification pursuant to Internal Revenue Code Section 1445 and the Treasury Regulations adopted thereunder.

25. TITLE INSURANCE AFFIDAVIT - The SELLER shall execute and deliver to the BUYER'S title insurance company at the time of closing a parties-in-possession and mechanic's lien affidavit in customary form.

26. INVESTMENT COMMITTEE APPROVAL - The BUYER acknowledges that this Agreement is subject to approval by the SELLER at each stage in its investment committee approval process. The SELLER agrees that, upon execution of this Agreement, the SELLER shall attempt to secure such investment committee approval and provide notice of the same to the BUYER on or before the Closing Date. If the SELLER is unable to obtain such investment committee approval on or before the Closing Date, this Agreement shall automatically terminate without recourse to the parties hereto and the deposit shall be refunded.

27. ERISA - The BUYER shall, in order to enable the SELLER to comply with the requirements of ERISA, execute and deliver to the SELLER at Closing, the BUYER'S written representation, in form satisfactory to the SELLER, that the BUYER is not acquiring the Premises with the assets of an employee benefit plan as defined in Section 3(3) of ERISA. If the BUYER shall be unable to deliver such written representation, such failure shall be deemed a default by the BUYER hereunder and the SELLER shall have the right to terminate this Agreement.

28. TITLE STANDARDS - In any dispute as to the existence or nonexistence of a defect in the title to the Premises, the title standards formulated by the Massachusetts Conveyancer's Association shall be determinative.

29. AFFIDAVITS - At the time of delivery of the SELLER'S deed, the SELLER shall execute and deliver to the BUYER and any title insurance company insuring the title to the Premises (for the BUYER or for any lender granting mortgage financing to the BUYER with respect to the Premises): (i) either (a) affidavits setting forth that the SELLER is not a foreign person or foreign corporation and providing the SELLER'S United States Taxpayer Identification Number, or (b) such other documentation as is required by Section 1445 of the Internal Revenue Code and any regulations promulgated thereunder to exempt the SELLER and/or the sale of the Premises from the provisions of said Section 1445, and (ii) any other usual and customary affidavits, documents and certificates required by the BUYER'S mortgagee and/or the BUYER'S title insurance company.

30. TRANSFER OF WARRANTIES. The SELLER hereby transfers, assigns and sets over to the BUYER, as of and from and after the closing hereunder, all of the SELLER'S right, title and interest in, to and under any and all warranties and guaranties received by or benefitting the SELLER from manufacturers,, suppliers, contractors or the like, with respect to the Premises and any and all appliances and any and all work therein, all to the extent such warranties and guaranties, if any, are then in force, applicable and assignable; but in any event, without any recourse against or liability of the SELLER on account thereof or in connection with the enforcement thereof by the BUYER. The provisions of this paragraph shall survive delivery of the deed.

31. NOT SUBSTANTIALLY ALL THE SELLER'S ASSETS - The SELLER represents and warrants that the sale of the Premises does not constitute the sale of all or substantially all the assets of the corporation and therefore the provisions of M.G.L., c. 62C, ss.52 do not apply to this sale.

The SELLER shall include an appropriate certificate in the deed, in form satisfactory to the BUYER and the BUYER'S counsel, to this effect. The warranty in the first sentence of this paragraph shall survive the delivery of the deed hereunder.

32. WARRANTIES AND REPRESENTATIONS OF THE SELLER - The SELLER hereby warrants and represents to the BUYER as follows:

(1) TITLE TO THE PREMISES. The SELLER has, or will have, at time of closing, the full and sole right, power and authority to sell, assign and convey the Premises pursuant to this Agreement. The SELLER has not mortgaged, hypothecated, pledged or assigned all or any portion of the SELLER's estate, right, title and interest in and to the Premises.

(2) LITIGATION. To the SELLER's knowledge, there is no action, suit or proceeding either at law or in equity, or any arbitration proceeding or investigation, inquiry or other proceeding by or before any court or Governmental instrumentality, board, agency or the like now pending or threatened, affecting the Premises. No judgment, decree or order of any court or Governmental authority has been issued against or binds the SELLER which has, or is likely to have, any material adverse effect on the ability of the SELLER to perform the transactions contemplated hereby.

(3) NO NOTICE OF VIOLATION. Seller has received no written notice from any governmental authority that the Premises do not comply with any legal requirement.

(4) NO PENDING TAKINGS. To the SELLER's knowledge, there is no pending or threatened, condemnation, eminent domain or similar proceeding or assessment affecting the Premises or any part thereof, nor is any such proceeding or assessment contemplated by any Governmental authority.

(5) EXISTENCE AND AUTHORITY OF THE SELLER. The SELLER is, and will be on the Closing date, a corporation duly organized, validly existing and in good standing under the laws of the State of New York. The SELLER has, and will have on the Closing date, all necessary power and authority to (a) carry on the business for which the SELLER has been organized, (b) own the Premises, and (c) enter into this Agreement and perform the SELLER's obligations hereunder.

WHEREFORE, the parties have hereto set their hands and seals on the date first written above.

SELLER:

THE EQUITABLE LIFE ASSURANCE
SOCIETY OF THE UNITED STATES

BUYER:

199 RIVERNECK, LLC
By Its Manager

MERCURY COMPUTER SYSTEMS, INC.

By: /s/ John C. Schoser

Investment Officer

By: /s/ James R. Bertelli

James R. Bertelli, President

EXHIBIT A

A certain parcel of land, with the buildings and other improvements thereon, situated in the Town of Chelmsford, Middlesex County, Massachusetts (the "Premises") shown as Lot 1 on a plan entitled "Plan of Land in Chelmsford, Mass.", (the "Plan") prepared for Corcoran Chelmsford Trust, dated August 9, 1985, prepared by Fleming, Bienvenu & Associates, Inc., recorded with the Middlesex North District Registry of Deeds in Plan Book 152, Page 115, bounded and described as follows:

SOUTHERLY by Riverneck Road as shown on the Plan, in two courses measuring, respectively, 91.90 feet and 60.00 feet

SOUTHWESTERLY by land shown on the Plan as Lot 2-B, 56.04 feet;

SOUTHWESTERLY by said Lot 2-B, in five courses measuring, and WESTERLY respectively, 8.46 feet, 61.09 feet, 218.68 feet, 47.26 feet, 37.60 feet;

SOUTHERLY by said Lot 2-B, 25.00 feet;

WESTERLY by said Lot 2-B, 77.00 feet;

SOUTHWESTERLY by said Lot 2-B, 133.97 feet;

WESTERLY by said Lot 2-B, 287.06 feet;

NORTHERLY by land shown on the Plan as Lot 3, 41.15 feet;

NORTHWESTERLY by said Lot 3, 180.51 feet;

NORTHEASTERLY by said Lot 3, 46.00 feet;

NORTHWESTERLY by said Lot 3, 125.00 feet;

NORTHEASTERLY by land shown on the Plan as of the Commonwealth of Massachusetts, 104.00 feet;

EASTERLY by land shown on the Plan as now or formerly of Riverneck Realty Trust, 636.94 feet;

SOUTHERLY by land shown on the Plan as now or formerly of McKennedy, 103.13 feet;

EASTERLY by the same, 172.12 feet.

The Premises contain 6.40 acres of land, according to the Plan.

The Premises are subject to and have the benefit of the rights, restrictions easements and reservations listed below:

1. Easement granted by Anthony Zabierek and Nellie Zabierek to Merrimack-Essex Electric Company to construct and maintain utility poles dated September 24, 1959 and recorded with said Deeds in Book 1455, Page 365.
2. Easement granted by John M. Corcoran and P. Leo Corcoran, Trustees of Corcoran Chelmsford Trust to New England Telephone and Telegraph dated May 16, 1984 and recorded with said Deeds in Book 2753, Page 278.
3. Grant of Easements from John M. Corcoran and P. Leo Corcoran, Trustees of Corcoran Chelmsford Trust to John M. Corcoran and P. Leo Corcoran, Trustees of Riverneck Realty Trust, dated March 17, 1986 and recorded with said Deeds in Book 3389, Page 348, as affected by an Amendment dated October 7, 1997 and recorded with said Deed in Book 8825, Page 208.
4. Rights and easements contained in the deed from John M. Corcoran and P. Leo Corcoran, Trustees of Corcoran Chelmsford Trust to Corcoran Chelmsford Corporation, dated March 17, 1986 and recorded with said Deeds in Book 3389, Page 337.
5. Rights and easements contained in the deed from John M. Corcoran and P. Leo Corcoran, Trustees of Corcoran Chelmsford Trust to Corcoran Chelmsford & Associates Limited Partnership dated December 5, 1986, recorded with said Deeds in Book 3818, Page 249.

QUITCLAIM DEED

THE EQUITABLE LIFE ASSURANCE SOCIETY of the UNITED STATES, a New York corporation, successor by merger to The Equitable Variable Life Insurance Company, for Eight Million Three Hundred Thousand Dollars (\$8,300,000) and other valuable consideration hereby grant to 199 RIVERNECK, LLC, a Delaware limited liability company, having a principal place of business at 199 Riverneck Road, Chelmsford, Massachusetts, 01824 with QUITCLAIM COVENANTS, a certain parcel of land, with the buildings and other improvements thereon, situated in the Town of Chelmsford, Middlesex County, Massachusetts (the "Premises") shown as Lot 1 on a plan entitled "Plan of Land in Chelmsford, Mass.", (the "Plan") prepared for Corcoran Chelmsford Trust, dated August 9, 1985, prepared by Fleming, Bienvenu & Associates, Inc., recorded with the Middlesex North District Registry of Deeds in Plan Book 152, Page 115, bounded and described as follows:

SOUTHERLY by Riverneck Road as shown on the Plan, in two courses measuring, respectively, 91.90 feet and 60.00 feet;

SOUTHWESTERLY by land shown on the Plan as Lot 2-B, 56.04 feet;

SOUTHWESTERLY by said Lot 2-B, in five courses measuring, and WESTERLY respectively, 8.46 feet, 61.09 feet, 218.68 feet, 47.26 feet, 37.60 feet;

SOUTHERLY by said Lot 2-B, 25.00 feet;

WESTERLY by said Lot 2-B, 77.00 feet;

SOUTHWESTERLY by said Lot 2-B, 133.97 feet;

WESTERLY by said Lot 2-B, 287.06 feet;

NORTHERLY by land shown on the Plan as Lot 3, 41.15 feet;

NORTHWESTERLY by said Lot 3, 180.51 feet;

NORTHEASTERLY by said Lot 3, 46.00 feet;

NORTHWESTERLY by said Lot 3, 125.00 feet;

NORTHEASTERLY by land shown on the Plan as of the Commonwealth of Massachusetts, 104.00 feet;

EASTERLY by land shown on the Plan as now or formerly of Riverneck Realty Trust, 636.94 feet;

SOUTHERLY by land shown on the Plan as now or formerly of McKennedy, 103.13 feet;

EASTERLY by the same, 172.12 feet.

The Premises contain 6.40 acres of land, according to the Plan.

For the Grantor's title to the Premises, see deed from John M. Corcoran and P. Leo Corcoran, Trustees of Corcoran Chelmsford Trust dated July 29, 1987, recorded with said Deeds in Book 4174, Page 262.

The Premises are conveyed subject to and with the benefit of the rights, restrictions easements and reservations set forth on EXHIBIT A, attached hereto and with of all rights, restrictions, easements, reservations and mortgages of record, if any, all insofar as now in force and applicable, and further subject to real estate taxes assessed for the current fiscal year, but not yet due and payable, which the grantee, by acceptance hereof, hereby assumes and agrees to pay.

This conveyance is not a sale of all or substantially all of the assets of The Equitable Life Assurance Society of the United States within the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, we have set our hands and seals this 5th day of February, 1999.

GRANTOR:

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES, a New York corporation

By: /s/ John C. Schoser

Name: John C. Schoser
Its: Investment Officer

STATE OF NEW YORK

_____, ss

February 5, 1999

Then personally appeared the above-named John C. Schoser, Investment Officer of The Equitable Life Assurance Society of the United States, and acknowledged the foregoing to be his free act and deed and the free act and deed of The Equitable Life Assurance Society of the United States, before me,

/s/ Victoria R. Lockhart

Notary Public

My Commission Expires:

EXHIBIT A

1. Easement granted by Anthony Zabierek and Nellie Zabierek to Merrimack-Essex Electric Company to construct and maintain utility poles dated September 24, 1959 and recorded with said Deeds in Book 1455, Page 365.
2. Easement granted by John M. Corcoran and P. Leo Corcoran, Trustees of Corcoran Chelmsford Trust to New England Telephone and Telegraph dated May 16, 1984 and recorded with said Deeds in Book 2753, Page 278.
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5
1,000
U.S. DOLLARS

3-MOS

	JUN-30-1999	JUL-30-1998	DEC-31-1998
		1	6,898
		32,581	
		16,400	
		292	
		9,257	
	42,140		
		27,473	
	13,858		
	83,366		
14,728			0
	0		0
		0	102
		68,536	
83,366		25,598	
	25,598		8,606
		8,606	
	12,386		
	116		
	50		
	4,606		
	1,572		
3,034			
	0		
	0		
		0	
	3,034		
	.30		
	.28		